



First Quarter Review July 27, 2012

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Forward-Looking Statements

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are not statements of facts or guarantees of future performance, and are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those discussed in the statements.

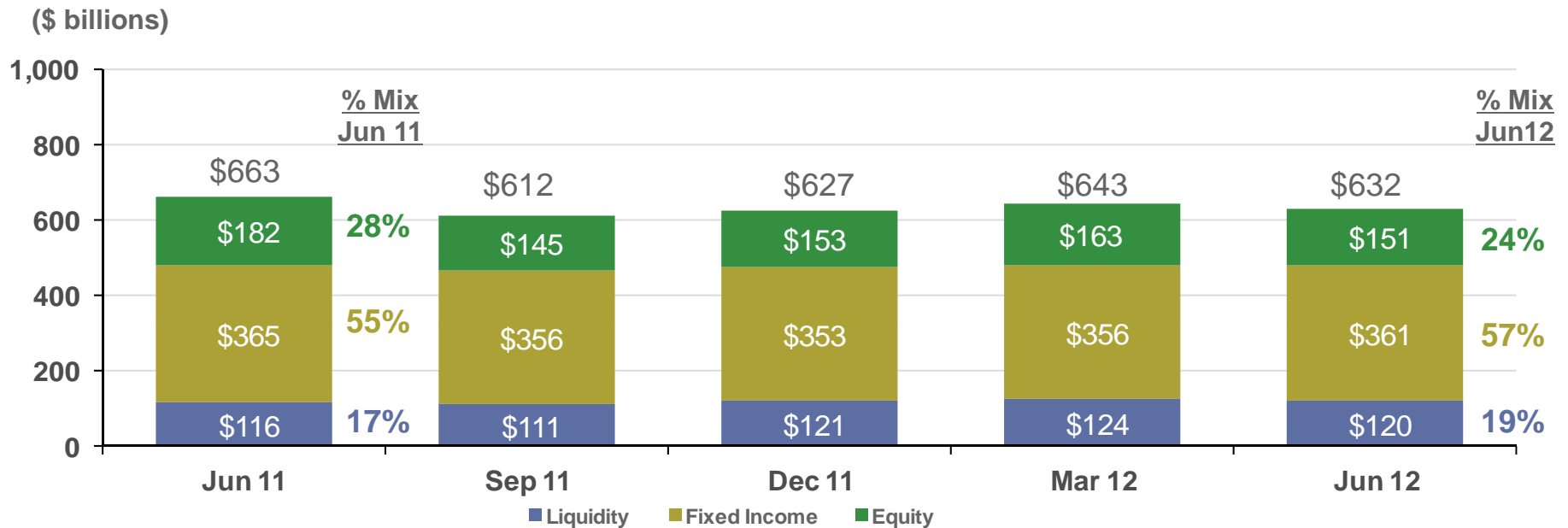
For a discussion of these risks and uncertainties, please see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2012 and in the Company’s quarterly reports on Form 10-Q.

First Quarter Highlights

- Net loss \$9.5M or \$0.07 per diluted share
- Adjusted Income \$88.6M or \$0.64 per diluted share
- Announced new capital plan
 - Paid down \$350M of debt and extended maturities
 - Financial results include \$69M or \$0.32 per diluted share charge for debt extinguishment
- Financial results include \$22.7M or \$0.11 per diluted share in launch costs for:
 - \$800M ClearBridge closed-end fund¹
 - \$200M Western REIT
- Long-term outflows of \$3.8B, lowest since September '07
- Cash position of \$0.8B
- \$155M share repurchase (completing original \$1B authorization)

¹ Assuming full exercise of underwriters' overallotment option

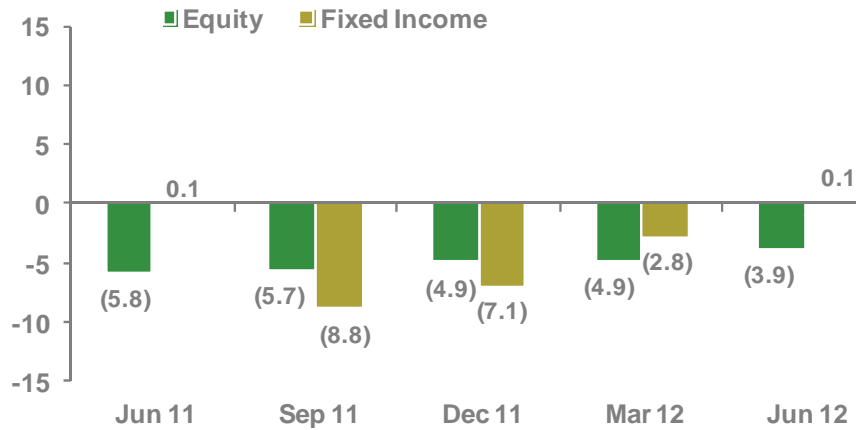
Assets Under Management by Asset Class



- Market depreciation \$4.3B
 - Equity market depreciation \$8.4B and Fixed Income market appreciation \$4.4B
- Average AUM of \$635B in line with prior quarter
- Quarter included \$4.6B MSSB dispositions of liquidity assets

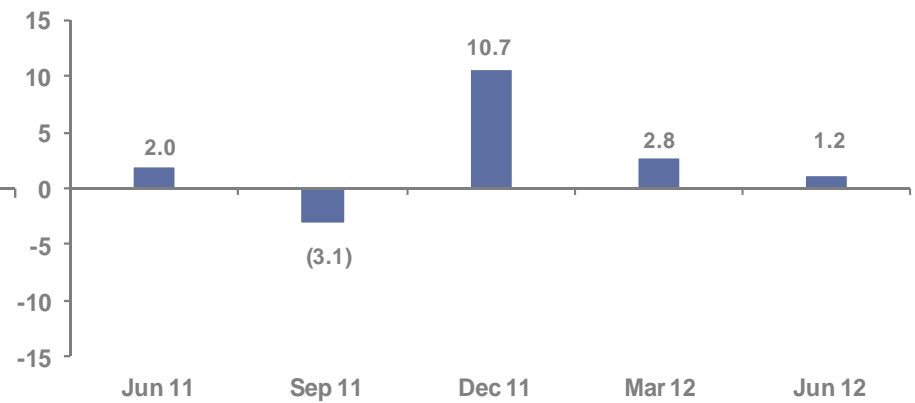
Net Flows

Long-Term Net Flows (\$B)



Organic Growth Rate	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12
	-4.2%	-10.5%	-9.5%	-6.1%	-2.9%

Liquidity Net Flows (\$B)



- Long-term outflows improved each of the past three quarters
- Lowest long-term outflows in nearly 5 years

Assets Under Management (\$ billions)

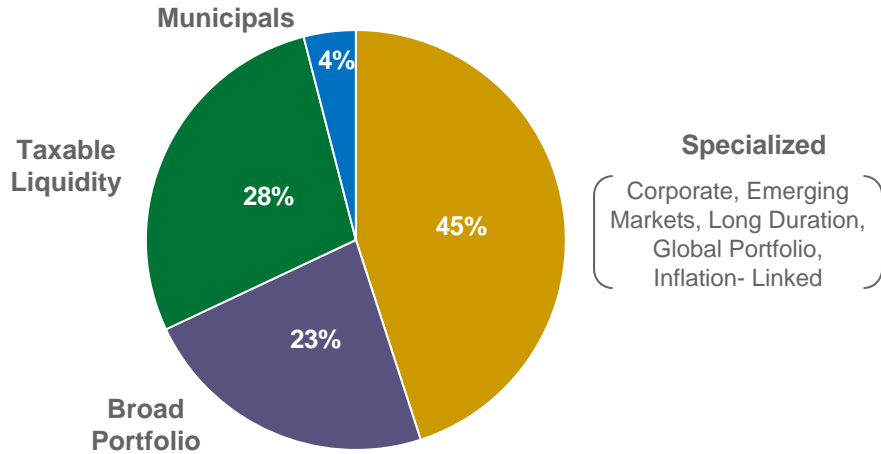
AUM by Affiliate ¹	Jun 12 AUM	Mar 12 AUM	Jun 11 AUM	% Change vs.	
				Mar 12	Jun 11
Western Asset	\$ 444.7	\$ 446.2	\$ 446.9	0 %	0 %
Royce & Associates	36.1	39.7	43.4	(9) %	(17) %
ClearBridge ²	56.1	58.2	60.6	(4) %	(8) %
Permal Group	17.2	18.3	20.9	(6) %	(17) %
Brandywine	39.0	37.2	32.7	5 %	19 %
Batterymarch	15.6	18.4	22.6	(15) %	(31) %

¹ Primary affiliates ordered by contribution to fiscal year 2013 pre-tax earnings

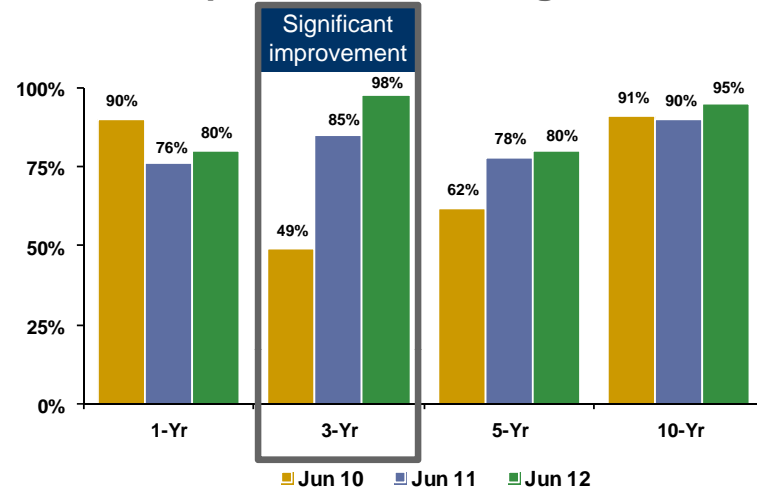
² Includes Global Currents Investment Management, LLC which operates as a division of ClearBridge

Western Asset Update

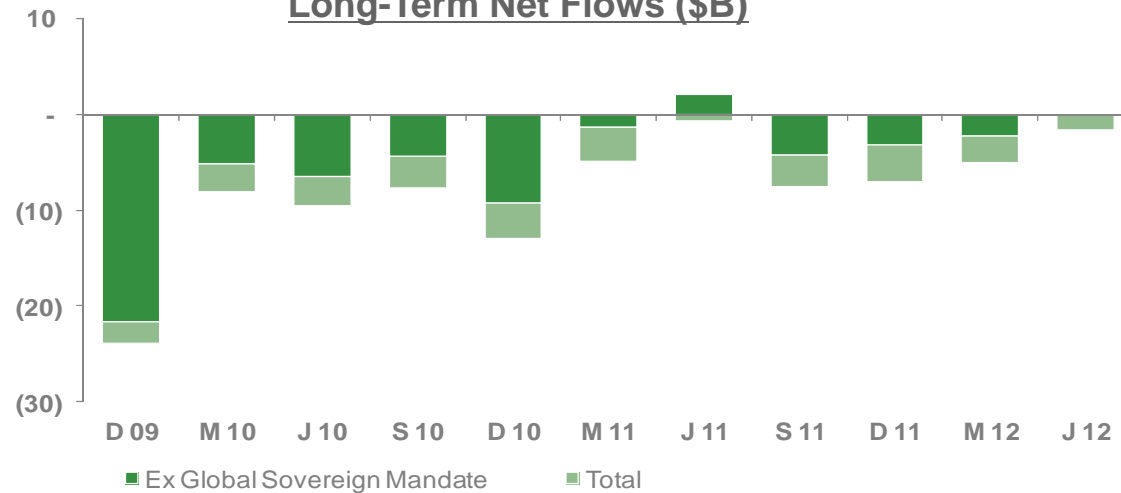
Total AUM by Mandate: \$445B



% of Composite AUM Beating Benchmark¹



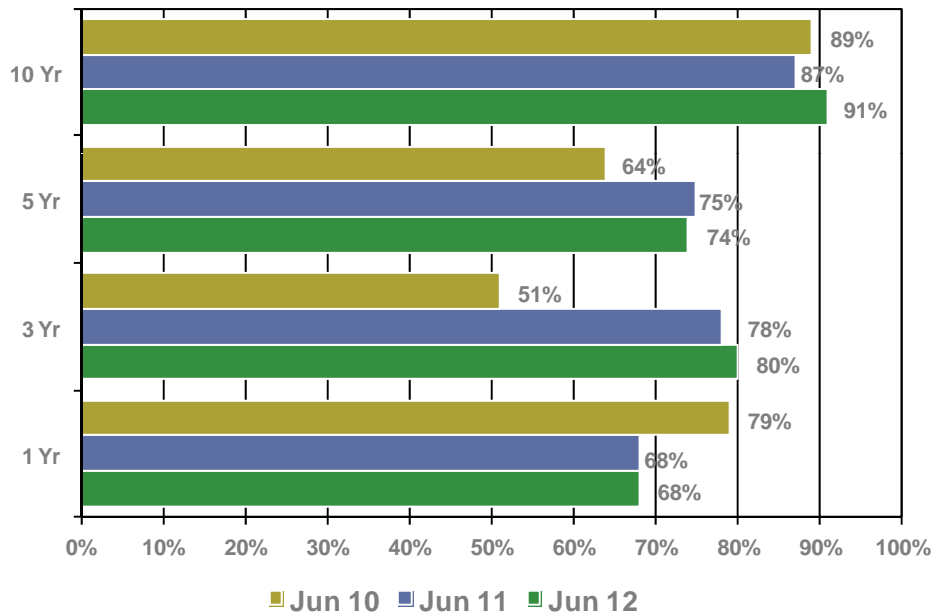
Long-Term Net Flows (\$B)



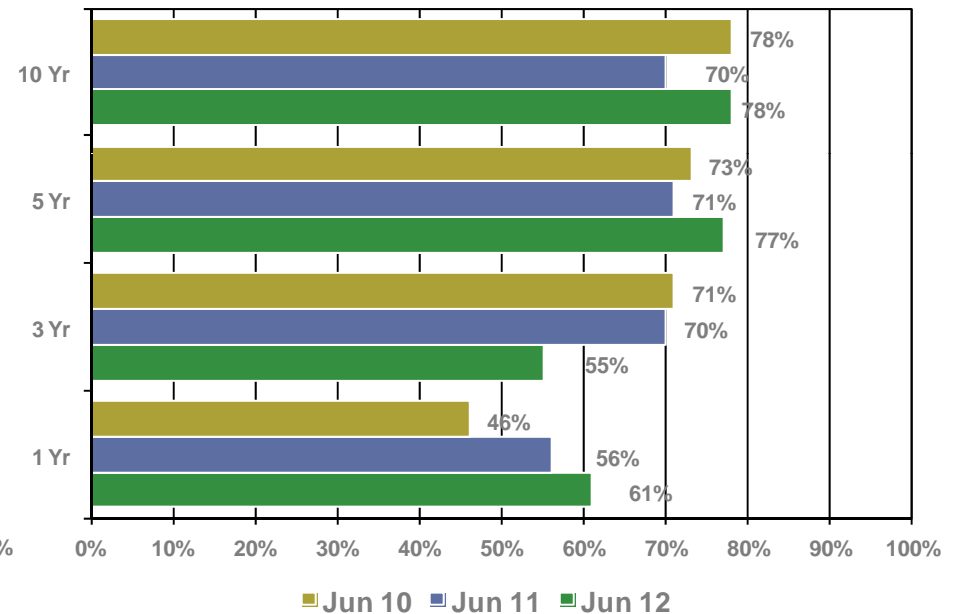
¹ Western Asset marketed composite assets including liquidity

Investment Performance

Marketed Composite Performance¹
% of AUM beating Benchmark



% of Long-Term U.S. Fund Assets
beating Lipper Category Average²



¹ 90% of total AUM was in marketed composites as of June 30, 2012, although not all marketed composites had 3-, 5- and 10-year histories. Includes liquidity.

² Includes open-end, closed-end, and variable annuity funds. Source: Lipper Inc. and Morningstar

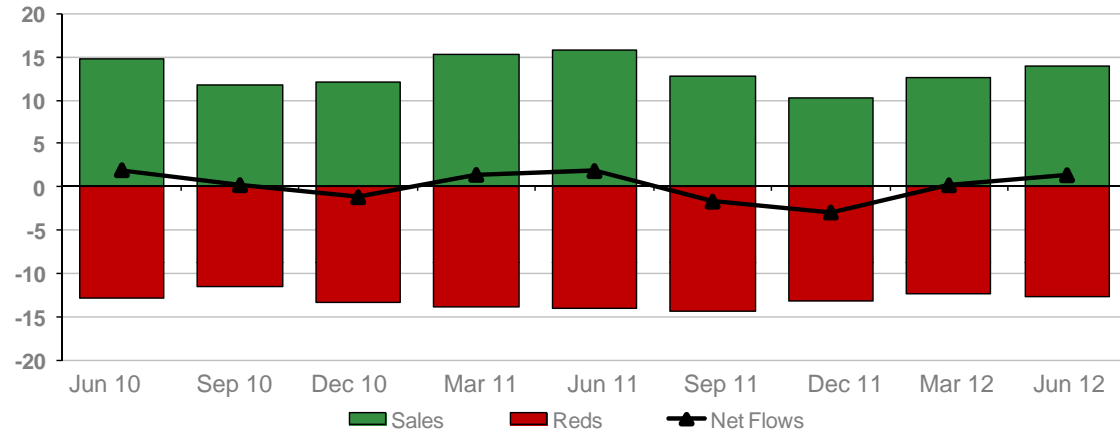
Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ

Global Distribution

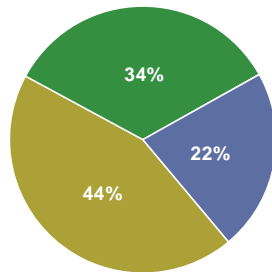
Total Long-Term AUM: \$217B

- Net inflows in seven of last ten quarters
- Highest net inflows for US Distribution since Mar '07 quarter
- Fourteen consecutive quarters of net inflows for International Distribution

Quarterly Net Flows (\$B)¹

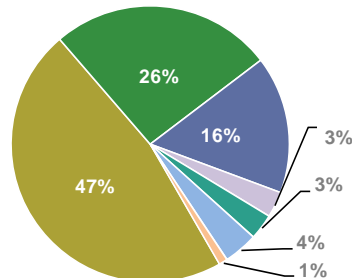


AUM by Channel



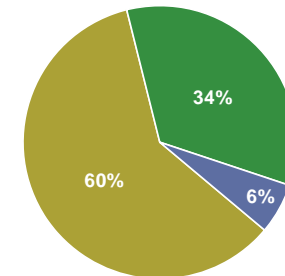
■ US Retail ■ US Individual ■ International

AUM by Affiliate



■ WAM ■ CB/GC ■ Royce ■ LMCM
■ BFM ■ BGIM ■ LM Glob Eq

AUM by Product



■ Funds ■ SMA/Sep Accts ■ Closed End

¹ Represents long-term sales, redemptions and net flows by Legg Mason's centralized global distribution platform

Leveraging Global Distribution

A broad suite of competitive products across fixed income, equity and alternative asset classes. Strong performance and continued emphasis on new products will be a key driver of our growth

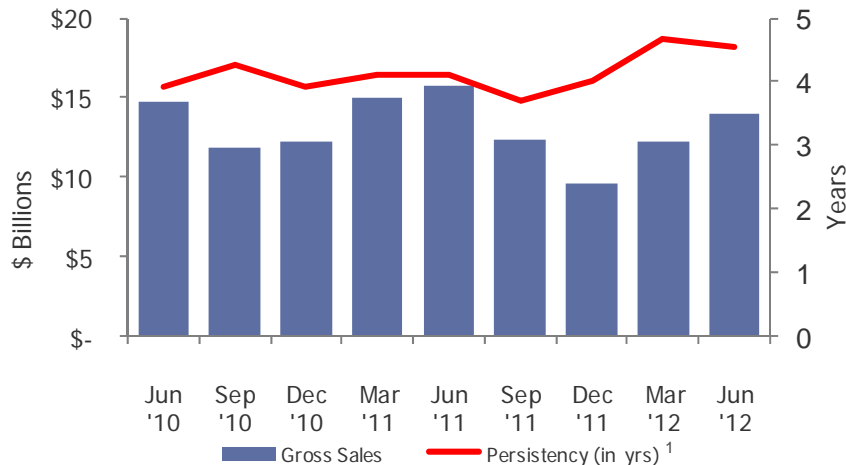
Products Driving Gross Sales

- Australian Bond Fund
- Brandywine Global Fixed Income
- ClearBridge Aggressive Growth
- ClearBridge Energy MLP Total Return Fund
- Legg Mason Australian High Div Equity Fund
- Royce Premier Fund
- Western Core Bond funds
- Western Municipal Bond funds

Leading Issuer of Closed-End Funds

Closed-End Funds Yearly Issuance 2009 - 2012 (\$ mm)			
Year	LM	Total	LM %
2012	1.1	4.3	25%
2011	0.5	5.9	9%
2010	1.7	7.7	22%
2009	0.7	2.6	26%
Total	4.0	20.5	20%

LMGD Persistency/Sales Trend



Closed-End Funds Launched since Jun-10 (\$B)

Fund Name	Assets at Jun 12
ClearBridge Energy MLP Fund Inc.	1.9
ClearBridge Energy MLP Opportunity Fund	0.8
ClearBridge Energy MLP Total Return Fund Inc.	0.7
LM BW Global Income Opportunities Fund, Inc.	0.5
Western Asset High Yield Defined Opportunity Fund Inc.	0.4

Financial Highlights First Quarter FY 2013

- Net Loss of \$9.5M, \$0.07 per diluted share
- Average AUM of \$635B, flat from prior quarter
- Operating revenues \$631M, down \$18M or 3% from prior quarter
 - Decrease in average equity AUM and performance fees
- Operating expenses of \$555M decreased \$22M or 4% from prior quarter
 - Decrease primarily driven by:
 - Decrease in mark to market on deferred comp and seed investments
 - Lower distribution and servicing expenses excluding fund launches
 - Partially offset by:
 - Higher fund launch costs in current quarter
- Operating income \$76M, operating margin improved to 12.1%
- Adjusted income¹ decreased to \$89M or \$0.64 per diluted share, compared to \$124M or \$0.88 per diluted share in prior quarter
 - Decrease primarily driven by change in mark to market on investments, fund launch costs, and prior quarter non-operating gains
- Operating income, as adjusted¹, \$78M
- Operating margin, as adjusted¹, 16.9%

¹ See Appendix for GAAP reconciliation

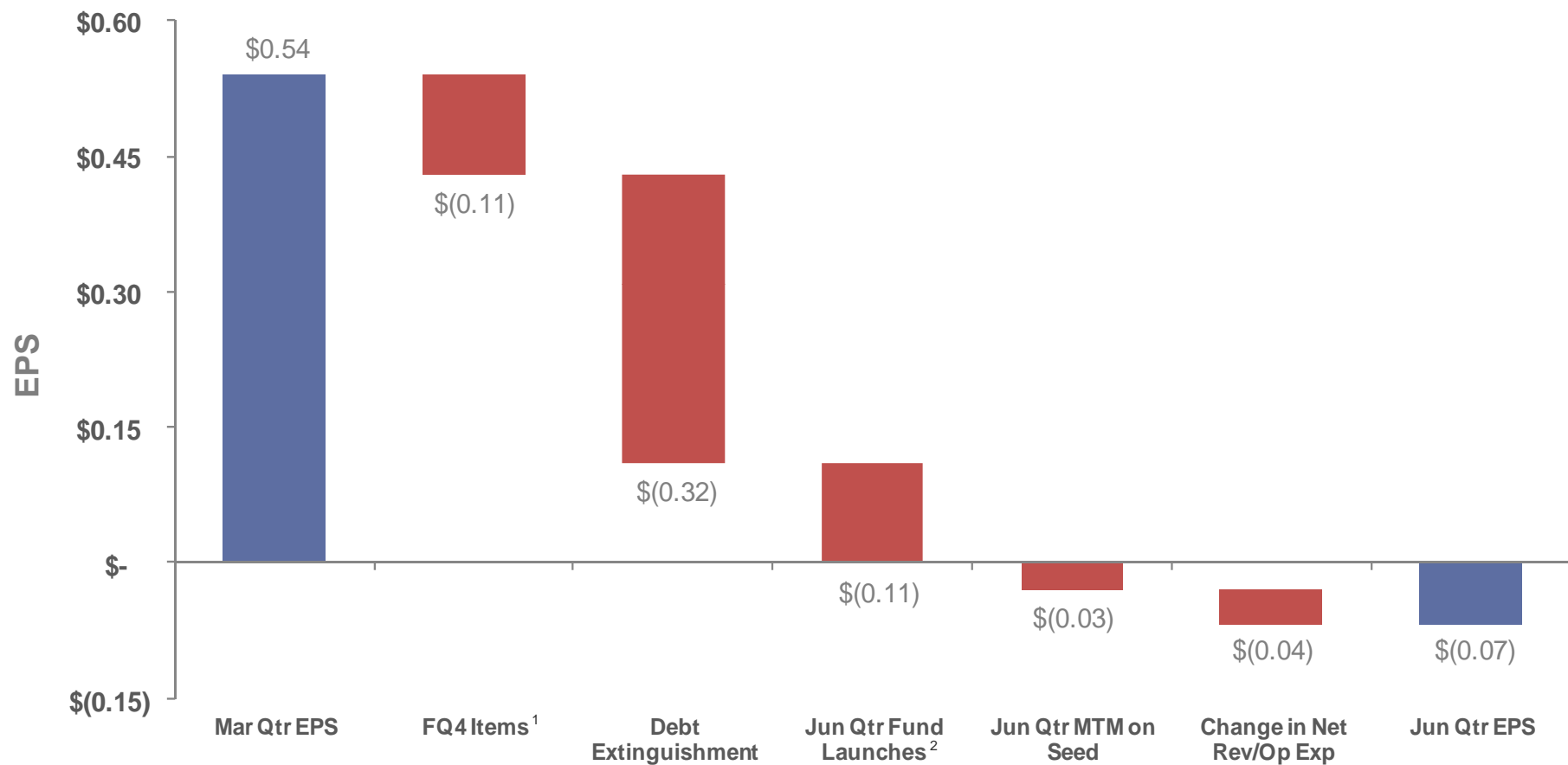
Operating Results First Quarter FY 2013

(\$ millions, except per share amounts)	Jun 12 Qtr	Mar 12 Qtr	Jun 11 Qtr	\$ Change vs.	
				Mar 12	Jun 11
Operating Revenues	\$ 630.7	\$ 648.6	\$ 717.1	\$ (17.9)	\$ (86.4)
Operating Expenses	554.6	576.4	616.7	(21.8)	(62.1)
Operating Income	76.1	72.2	100.4	3.9	(24.3)
Net Income (loss)	(9.5)	76.1	60.0	(85.6)	(69.5)
Diluted EPS	(0.07)	0.54	0.40	(0.61)	(0.47)
Adjusted Income¹	88.6	123.6	109.1	(35.0)	(20.5)
Adjusted Income per diluted share¹	0.64	0.88	0.73	(0.24)	(0.09)
Operating Margin, as adjusted¹	16.9%	21.2%	21.0%		
Effective Tax Rate GAAP²	27.8%	30.2%	31.1%		

¹ See Appendix for GAAP reconciliation

² Includes the impact of Consolidated Investment Vehicles (CIVs) of (7.2%), (0.1%), and (0.6%) in Jun 12, Mar 12, and Jun 11, respectively

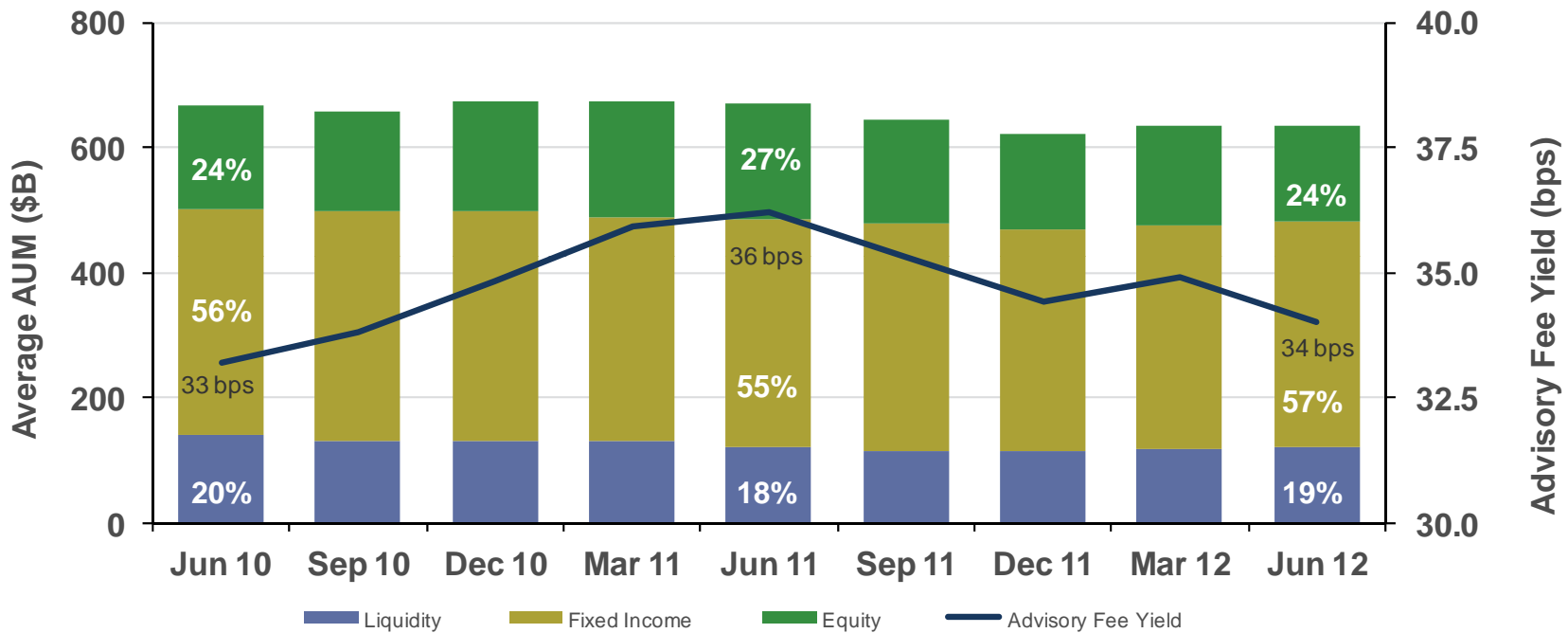
First Quarter Earnings Per Share Rollforward



¹ Includes prior quarter sales of Wealth Manager and bankruptcy claim, MTM on seed, CEF launch costs, tax adjustments, and transition-related costs

² Includes two fund launches

Advisory Fee Yield / Average AUM



- Decline in the advisory fee yield during the quarter driven by the decrease in average equity AUM

Operating Expenses

(\$ millions)	Jun 12	Mar 12	% Chg	Jun 11	% Chg
Compensation and benefits	\$ 270.3	\$ 299.3	(10%)	\$ 311.7	(13%)
Distribution and servicing	169.8	160.3	6%	180.8	(6%)
Communications and technology	37.6	39.2	(4%)	40.5	(7%)
Occupancy	30.3	29.5	3%	33.2	(9%)
Amortization of intangible assets	3.5	3.6	(3%)	5.6	(37%)
Other	43.1	44.5	(3%)	44.9	(4%)
Total Operating Expenses	<u>\$ 554.6</u>	<u>\$ 576.4</u>	(4%)	<u>\$ 616.7</u>	(10%)

- Distribution and servicing increase due to higher fund launch costs in current quarter, partially offset by impact of lower AUM
- Communications and technology expenses decreased reflecting lower affiliate related technology costs
- Other expenses decreased due to lower fund related costs and trading losses, partially offset by prior quarter assessment fee refund

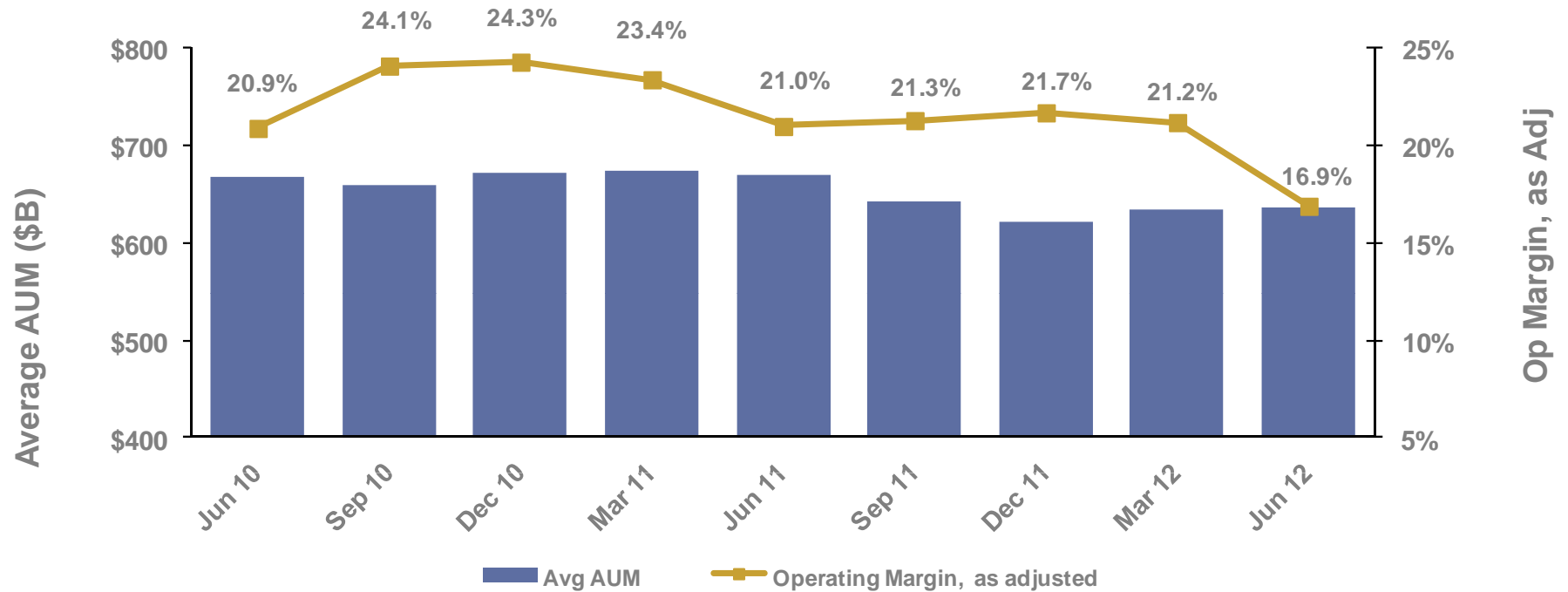
Compensation and Benefits

(\$ millions)	Jun 12	% of Net Rev. ¹	Mar 12	% of Net Rev.	\$ Change
Salary and incentives	\$ 210.9	46%	\$ 215.9	44%	\$ (5.0)
Benefits and payroll taxes	58.0	12%	51.0	11%	7.0
Subtotal Compensation and benefits	268.9	58%	266.9	55%	2.0
Transition-related costs and severance	0.2	0%	3.7	1%	(3.5)
MTM deferred comp. and seed investments	1.2	0%	28.7	5%	(27.5)
Total Compensation and Benefits	\$ 270.3	58%	\$ 299.3	61%	(29.0)

- Total compensation and benefits declined due to lower operating revenues and MTM on deferred compensation and seed investments, partially offset by co-investment in strategic initiatives
- Fund launch costs in June quarter had a 3% impact on the comp ratio, the drop in revenues from the prior quarter had a 1% impact

¹ Net revenue is equal to operating revenues, as adjusted

Operating Margin, as Adjusted



- Impact of fund launch costs on operating margin, as adjusted, approximately 4.0% (prior quarter impact was 1.6%)

Note: See Appendix for GAAP reconciliation

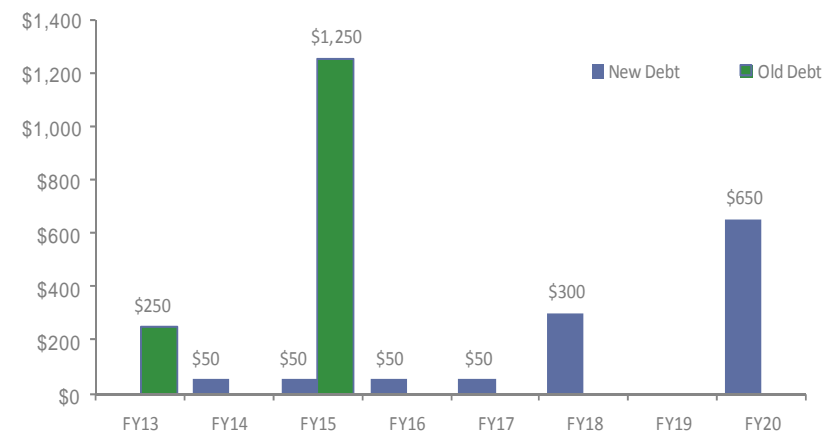
Recently Announced Capital Plan

- Repurchased \$1.25B Convertible Senior Notes using \$250M from bank line, proceeds of \$650M 7-year senior bond offering and \$350M of cash
 - Incurred one-time charge on extinguishment of \$69M
- Refinanced \$500M credit facility with a 5-year amortizing term loan (\$50M per year) and amended and extended existing revolver
- Reduced gross debt by \$350M
- Reduced GAAP interest by \$36M annually
- Share repurchase of \$155M
- New \$1B Board authorized share repurchase program
 - Up to 65% of cash generated from operations may be used to repurchase shares
- Cash position of \$0.8B

Corporate Debt

	Amount	Maturity	Rate
7 Year Sr. Bonds	\$650	May-19	5.50%
5 Year Term Loan ¹	\$500	Jun-17	1.96%
Corporate Revolver ²	-	Jun-17	0.20%
Total Debt	\$1,150		

Debt Maturity



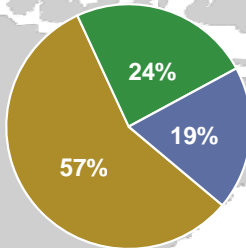
¹ Libor + 150bps

² Rate represents commitment fee only on \$500M corporate revolver. Drawn costs equals Libor + 150bps

Diversity & Scale

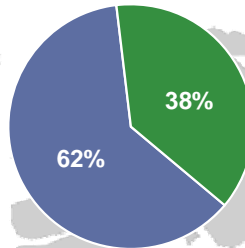
Total AUM \$632B

AUM by Asset Class



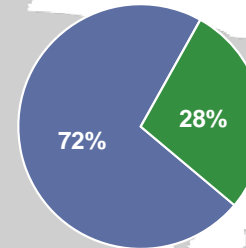
■ Fixed Income ■ Equity ■ Liquidity

AUM by Client Domicile



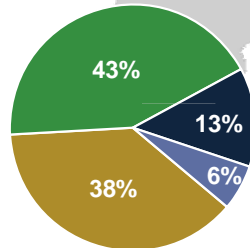
■ US ■ Non-US

AUM by Client



■ Institutional ■ Retail

FYTD 2013 Gross Revenues \$630.7M

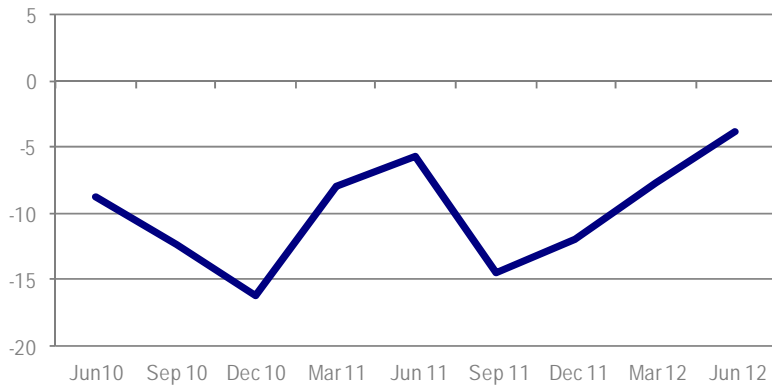


■ Fixed Income ■ Equity
■ Alternative ■ Liquidity

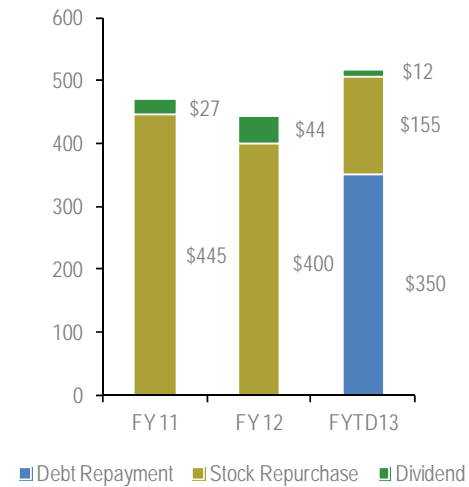
Data as of June 30, 2012

Significant Progress in Volatile Markets

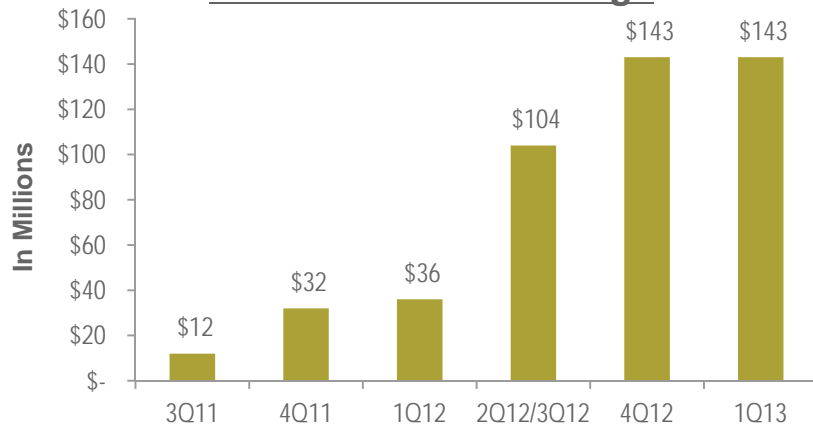
Long-Term Flows (\$B)



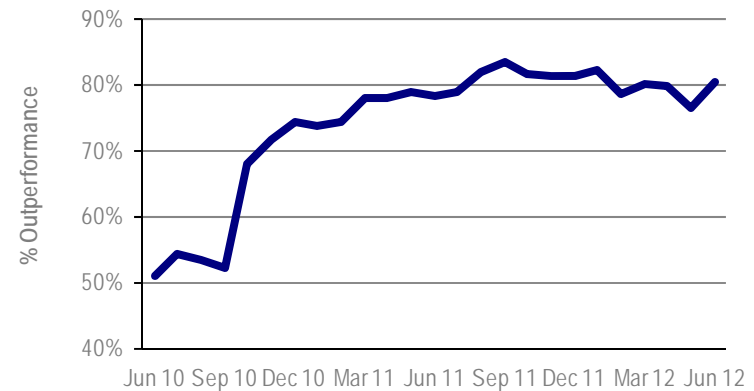
Capital Allocation (\$M)



Annualized Cost Savings



3 Year Composite Outperformance²



¹See Appendix for GAAP reconciliation
²Includes liquidity
 Benchmark source: Lipper and Morningstar

Competitive Positioning Drives Significant Financial Flexibility

Respected Brands

Scale

Diversity

Global Distribution

Three Priorities for Improving Shareholder Value

Growing Organically

- 80% of marketed composite AUM performance beating benchmarks
- \$800M ClearBridge closed-end fund launch¹
- \$200M Western REIT
- Improved long-term outflows – best since Sept-07

Filling Product Gaps

- Select bolt-ons and lift-outs
- International equities
- Alternatives

Returning Capital

- Refinanced and deleveraged debt, laddered maturities, and diversified our investor base
- \$155M or 6.2M shares repurchased
- Board authorized a new \$1B share repurchase program

¹ Assuming full exercise of underwriter's overallotment option

Appendix

Streamlined Legg Mason Business Model



Appendix – GAAP Reconciliation Adjusted Income¹

	Quarters Ended		
	Jun 12	Mar 12	Jun 11
(\$ millions, except per share amounts)			
Net Income (Loss) attributable to Legg Mason, Inc.	\$ (9.5)	\$ 76.1	\$ 60.0
Plus:			
Amortization of intangible assets	3.5	3.6	5.6
Loss on extinguishment of 2.5% senior notes	54.9	-	-
Tax amortization benefit on intangible assets	33.9	33.9	34.0
Imputed interest on convertible debt (2.5% senior notes)	5.8	10.0	9.5
Adjusted Income	<u>\$ 88.6</u>	<u>\$ 123.6</u>	<u>\$ 109.1</u>
Net Income (Loss) per Diluted Share attributable to Legg Mason, Inc. common shareholders	\$ (0.07)	\$ 0.54	\$ 0.40
Plus:			
Amortization of intangible assets	0.03	0.03	0.04
Loss on extinguishment of 2.5% senior notes	0.40	-	-
Tax amortization benefit on intangible assets	0.24	0.24	0.23
Imputed interest on convertible debt (2.5% senior notes)	0.04	0.07	0.06
Adjusted Income per Diluted Share	<u>\$ 0.64</u>	<u>\$ 0.88</u>	<u>\$ 0.73</u>

¹ See explanations for Use of Supplemental Data as Non-GAAP Performance Measures in earnings release.

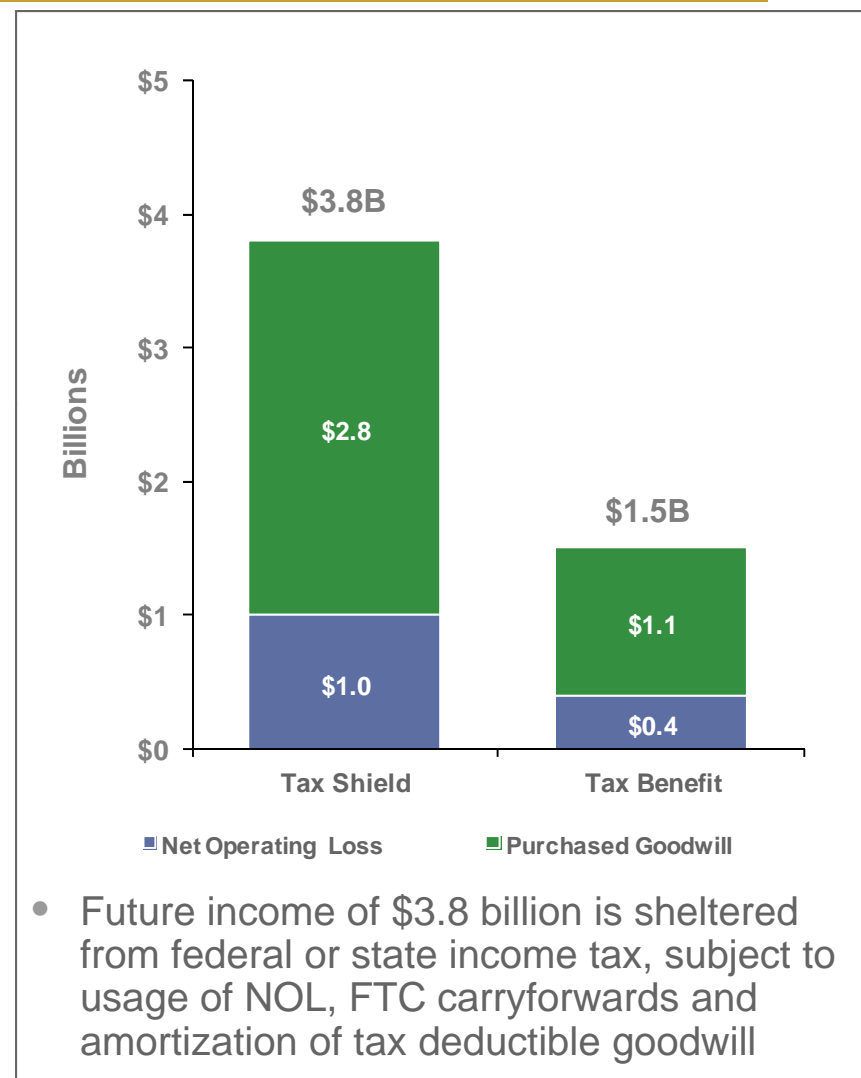
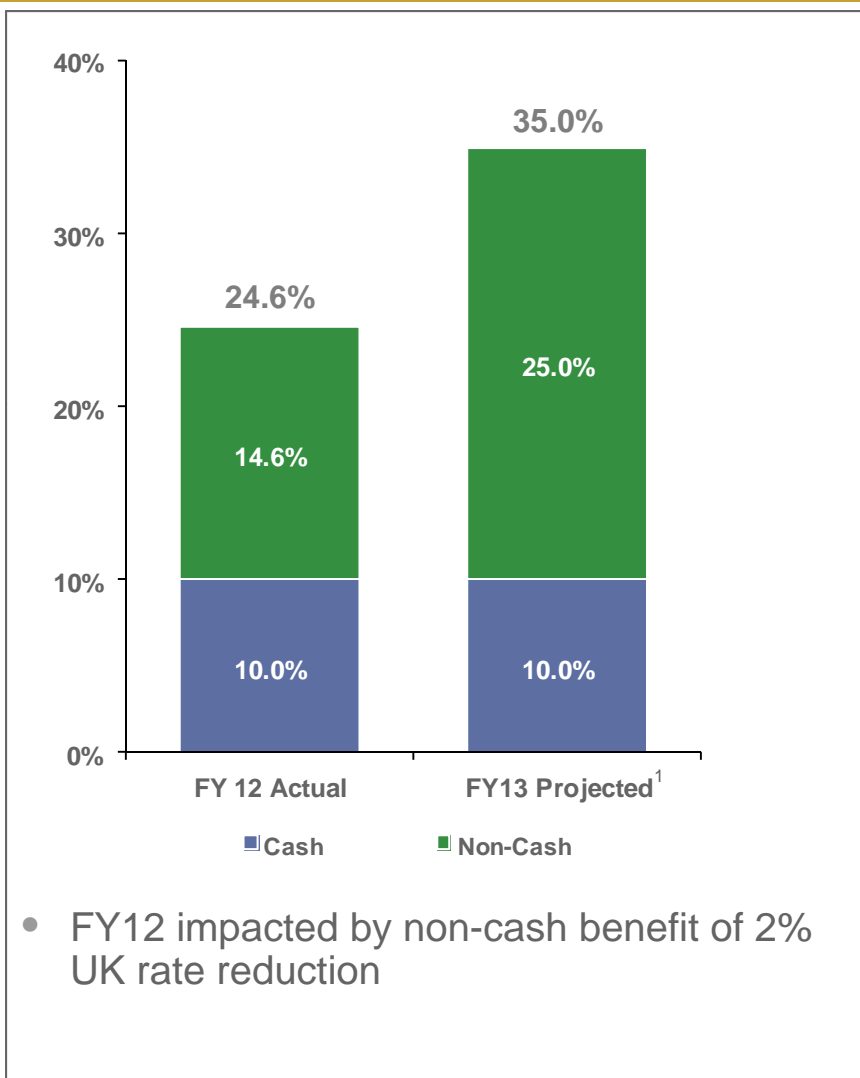
Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

(\$ millions)	Quarters Ended								
	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12
Operating Revenues, GAAP basis	\$ 674.2	\$ 674.8	\$ 721.9	\$ 713.4	\$ 717.1	\$ 669.9	\$ 627.0	\$ 648.6	\$ 630.7
Plus (Less):									
Operating revenues eliminated upon consolidation of investment vehicles	0.8	1.0	1.2	1.2	1.1	0.6	0.8	0.7	0.6
Distribution and servicing expense excluding consolidated investment vehicles	<u>(184.7)</u>	<u>(165.8)</u>	<u>(187.4)</u>	<u>(174.8)</u>	<u>(180.7)</u>	<u>(160.4)</u>	<u>(148.3)</u>	<u>(160.3)</u>	<u>(169.8)</u>
Operating Revenues, as adjusted	<u>\$ 490.3</u>	<u>\$ 509.9</u>	<u>\$ 535.7</u>	<u>\$ 539.8</u>	<u>\$ 537.4</u>	<u>\$ 510.1</u>	<u>\$ 479.5</u>	<u>\$ 489.0</u>	<u>\$ 461.5</u>
Operating Income, GAAP basis	\$ 102.8	\$ 87.9	\$ 97.0	\$ 99.1	\$ 100.4	\$ 106.9	\$ 59.3	\$ 72.2	\$ 76.1
Plus (Less):									
Gains (losses) on deferred compensation and seed investments	(4.6)	22.1	8.6	10.2	(2.4)	(14.2)	1.7	28.7	1.2
Transition-related costs	3.2	11.6	24.0	15.7	13.7	15.1	42.3	1.9	-
Operating income and expenses of consolidated investment vehicles	<u>1.2</u>	<u>1.5</u>	<u>0.6</u>	<u>1.4</u>	<u>1.2</u>	<u>0.9</u>	<u>0.9</u>	<u>0.8</u>	<u>0.7</u>
Operating Income, as adjusted	<u>\$ 102.6</u>	<u>\$ 123.1</u>	<u>\$ 130.2</u>	<u>\$ 126.4</u>	<u>\$ 112.9</u>	<u>\$ 108.6</u>	<u>\$ 104.2</u>	<u>\$ 103.7</u>	<u>\$ 77.9</u>
Operating margin, GAAP basis	15.2%	13.0%	13.4%	13.9%	14.0%	16.0%	9.5%	11.1%	12.1%
Operating margin, as adjusted	20.9%	24.1%	24.3%	23.4%	21.0%	21.3%	21.7%	21.2%	16.9%

¹ See explanations for Use of Supplemental Data as Non-GAAP Performance Measures in earnings release.

Appendix - Significant Tax Benefit



Data as of June 30, 2012
¹ FY13 projection prior to potential UK tax rate reduction

Appendix - New Products Target Long-Term AUM Growth

Top product launches over past five years

Product	Launch Date	Assets at Jun-12
Legg Mason Foreign Investment Grade Credit Bond Fund	Feb 09	\$5.2B
Legg Mason Brazilian Government Bond Fund	Oct 08	\$3.6B
Legg Mason Australian Bond Fund	May 08	\$2.8B
ClearBridge Energy MLP Fund	Jun10	\$1.9B
RLJ Western Asset Public/Private Master Fund	Nov 09	\$1.5B
Legg Mason Global Plus	Aug 07	\$1.1B
Legg Mason Global Multi Strategy Bond Fund	May 08	\$1.0B
ClearBridge Energy MLP Opportunity Fund	Jun 11	\$773M
Legg Mason Western Asset Asian Opportunities Fund	Jun 08	\$744M
ClearBridge Energy MLP Total Return Fund Inc.	Jun 12	\$671M