

Third Quarter Review February 1, 2013

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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, in the Company’s quarterly reports on Form 10-Q, and in the Company’s current report on Form 8-K filed January 22, 2013.

Third Quarter FY 2013

- Net Loss \$454M or \$3.45 per diluted share
 - Includes non-cash impairment charge of \$734M or \$3.86 per diluted share
- Adjusted Income of \$92M or \$0.70 per diluted share
- Announced Fauchier Partners acquisition (anticipated 4th quarter close)
- Purchased \$71M or 2.8 million shares
- Continued strong cash position \$900M
- Over 80% of strategy AUM exceeds performance benchmark for the 1-, 3-, 5-, and 10-year periods
- Launched new closed-end fund
- Re-branding initiatives continue

Assets Under Management (\$ billions)

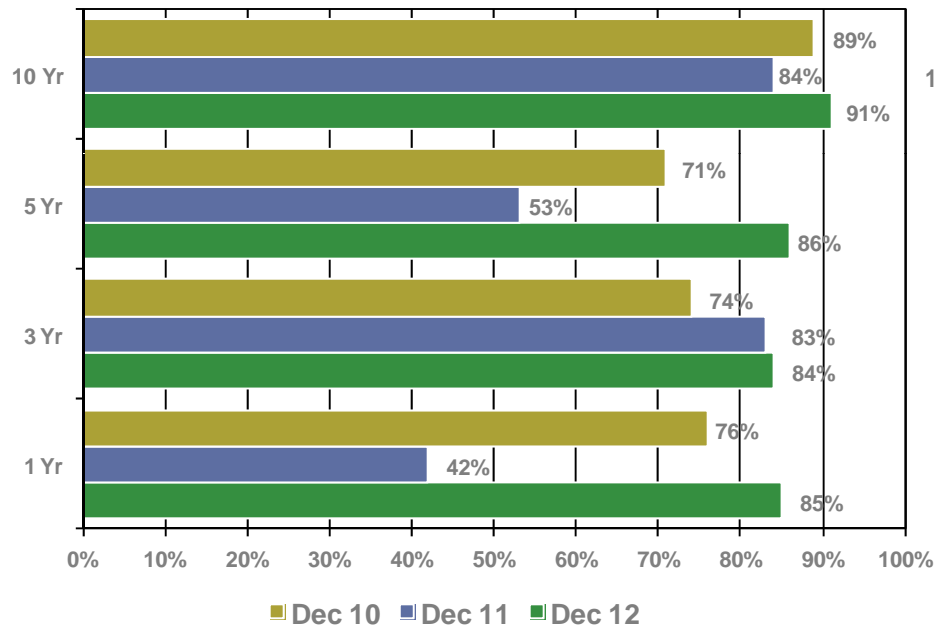
AUM by Affiliate ¹	Dec 12 AUM	Sep 12 AUM	Dec 11 AUM	% Change vs.	
				Sep 12	Dec 11
Western Asset	\$ 461.7	\$ 459.0	\$ 442.0	1 %	4 %
Royce & Associates	35.3	36.4	35.9	(3) %	(2) %
ClearBridge ²	57.3	59.0	53.6	(3) %	7 %
Permal Group	16.1	16.8	17.8	(4) %	(10) %
Brandywine	42.9	41.4	33.1	4 %	30 %
Batterymarch	12.5	14.6	17.6	(15) %	(29) %

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

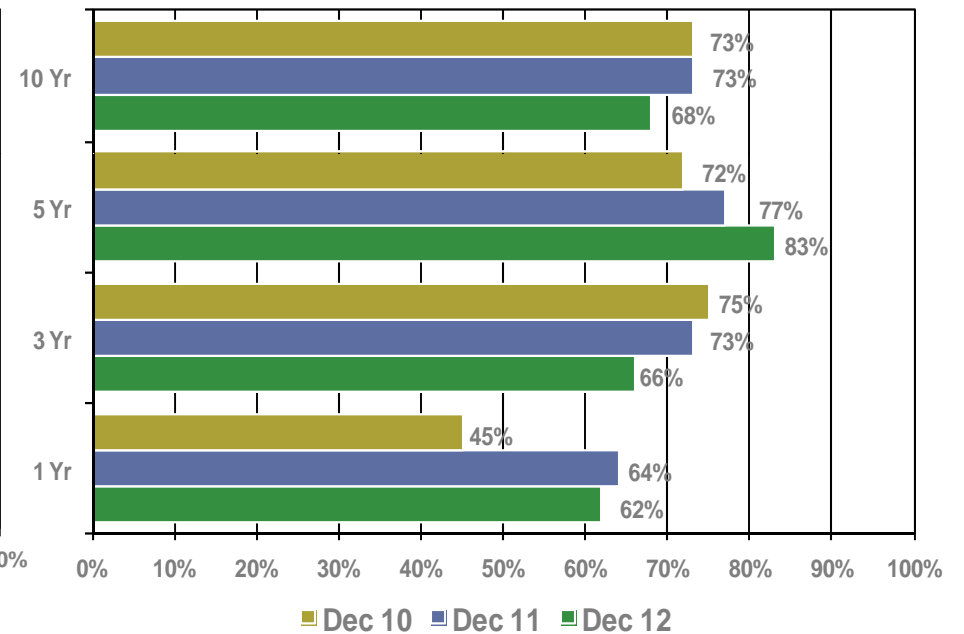
² Includes Global Currents Investment Management, LLC which operates as a division of ClearBridge

Investment Performance

% of Strategy AUM beating Benchmark¹



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



¹ See appendix for details regarding strategy performance

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

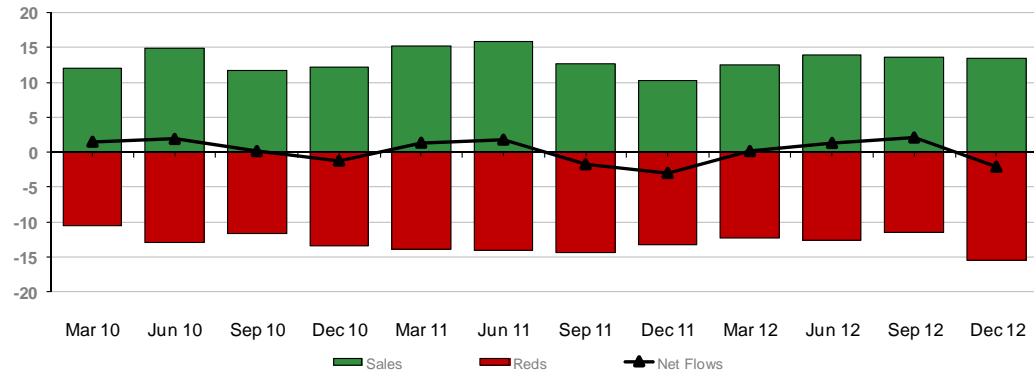
Past performance is no guarantee of future results. The information shown above does not reflect the performance of any specific fund. Individual fund performance will differ

Global Distribution

Total Long-Term AUM: \$222B

- Net inflows in eight of last twelve quarters
- Sixteen consecutive quarters of net inflows for International Distribution

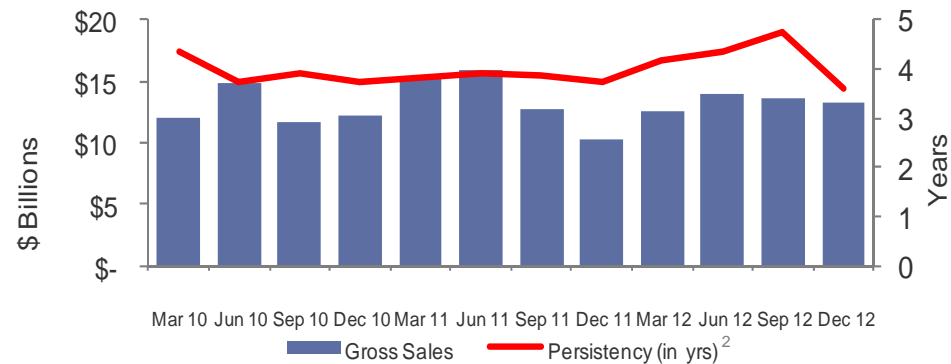
Quarterly Net Flows (\$B)¹



Top Funds Driving Gross Sales FYTD

- ClearBridge Aggressive Growth Fund
- ClearBridge Energy MLP Total Return Fund
- Legg Mason Australian High Dividend Equity Fund
- Legg Mason Brandywine Global Fixed Income Fund
- Legg Mason Brandywine Global Opportunities Bond Fund
- LM Australian Bond Fund
- Royce Premier Fund
- Western Asset Core Bond Fund
- Western Asset Core Plus Bond Fund
- Western Asset Intermediate-Term Municipals Fund
- Western Asset Managed Municipals Fund
- Western Asset Short Duration Municipal Income Fund

LMGD Persistency/Sales Trend



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

² Expected life of an asset based on current redemption rates

Fauchier Partners Acquisition

- Leading European-based Funds-of-Hedge Funds manager
- Expands Permal's global presence and capabilities

	Fauchier Partners	Permal
Business Mix	Institutional (87%)	HNW (58%)
Client Geographic Footprint	UK (49%), France (12%), Australia (12%), Japan (8%)	Europe (25%), Latin America (19%), Middle East (17%), Asia (17%)
Product Strength	Equity Long/Short, Event Driven	Fixed Income, Macro

- Enhances Permal's institutional business and investment capabilities
 - Geography, Scale, Personnel/Talent, Systems, Products
- Adds key distribution partner for Permal – BNP Paribas Investment Partners
- Year 1 EPS accretion expected
- Anticipated 4th quarter FY13 close

Permal Restructuring

- **Profits interest management equity plan**
 - Participation in 15% of incremental growth of enterprise value from date of implementation
 - Anticipated annual charge of less than \$1M per year, as Permal shares equally in the the cost
 - Long-term nature of payments incents key employees to focus on future enterprise value
 - Broad-based employee participation that allows for inclusion of future hires
 - Attractive recruiting and retention tool
 - Awards vest over five years
- **Revised revenue share agreement**
 - Lower current revenue share includes investment in strategic initiatives
 - Higher revenue share on incremental growth
- **New multi-year employment contracts**
 - 15 key employees executed extended contracts

Financial Highlights Third Quarter FY 2013

- Net loss of \$454M, \$3.45 per diluted share
 - Includes impairment charge of \$734M or \$3.86 per diluted share
 - Also reflects \$9M or \$0.07 per diluted share of net tax reserve adjustments
- Adjusted income¹ decreased to \$92M or \$0.70 per diluted share, compared to \$100M or \$0.75 per diluted share in prior quarter
- Average AUM of \$648B, up \$9B from prior quarter
 - Long-term average AUM flat compared to prior quarter
- Operating revenues \$674M, up \$34M or 5% from prior quarter
 - Increase driven by Western PPIP performance fee of \$32M
- Operating expenses of \$1.3B increased \$747M from prior quarter driven by intangible asset impairment charge of \$734M
- Operating loss \$633M, operating margin negative
- Operating income, as adjusted¹, \$105M, operating margin, as adjusted¹, 19.8%
- Repurchased 2.8M shares in the December quarter and 12.5M fiscal year to date

¹ See Appendix for GAAP reconciliation

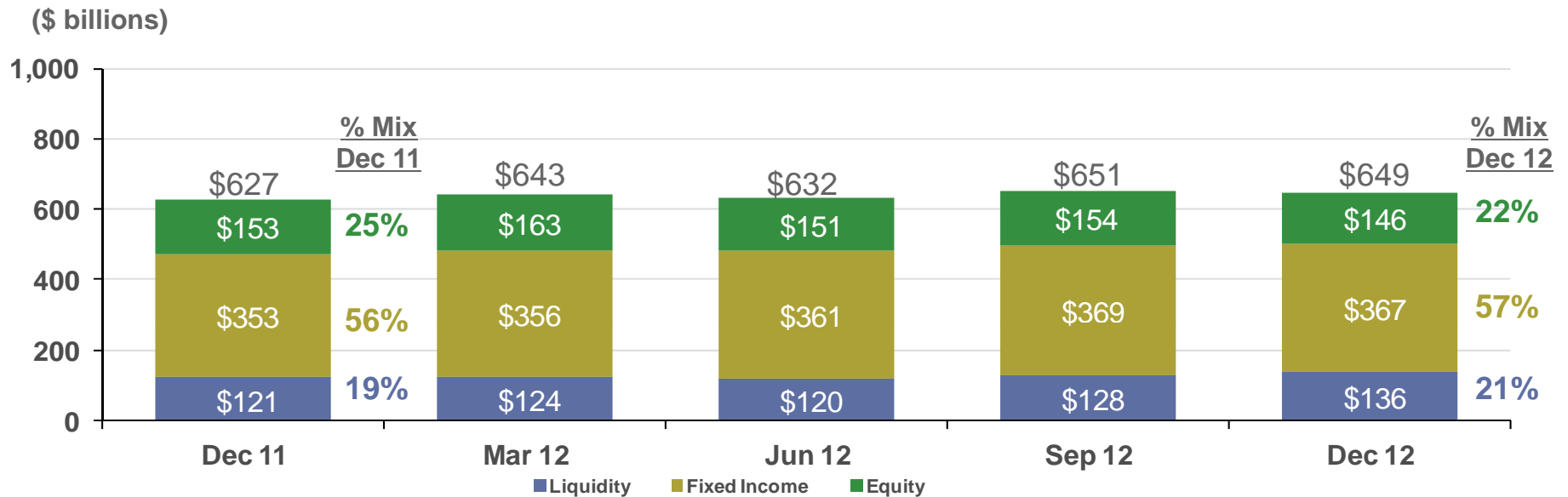
Operating Results Third Quarter FY 2013

(\$ millions, except per share amounts)	Dec 12 Qtr	Sep 12 Qtr	Dec 11 Qtr	\$ Change vs.	
				Sep 12	Dec 11
Operating Revenues	\$ 673.9	\$ 640.3	\$ 627.0	\$ 33.6	\$ 46.9
Operating Expenses	1,307.2	560.6	567.7	746.6	739.5
Operating Income (loss)	(633.3)	79.7	59.3	(713.0)	(692.6)
Net Income (loss)	(453.9)	80.8	28.1	(534.7)	(482.0)
Diluted EPS	(3.45)	0.60	0.20	(4.05)	(3.65)
Adjusted Income¹	91.8	100.1	76.8	(8.3)	15.0
Adjusted Income per diluted share¹	0.70	0.75	0.55	(0.05)	0.15
Operating Margin, as adjusted¹	19.8%	21.2%	21.7%		
Effective Tax Rate GAAP²	28.2%	16.8%	26.4%		

¹ See Appendix for GAAP reconciliation

² Includes the impact of Consolidated Investment Vehicles (CIVs) of (0.2%), 0%, and (4.5%) in Dec 12, Sep 12, and Dec 11, respectively

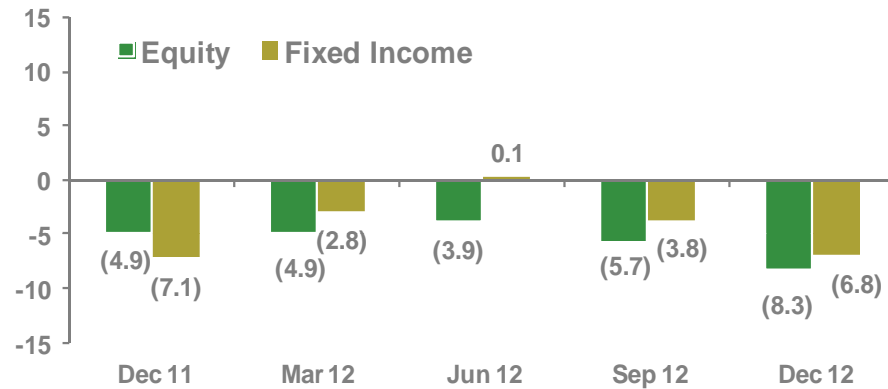
Assets Under Management by Asset Class



- Market appreciation \$6.3B (includes negative FX of \$4.7B)
 - Equity appreciation \$2.7B and Fixed Income appreciation \$3.6B
- Average AUM of \$648B increased \$9B from prior quarter
 - Long-term average AUM flat

Net Flows

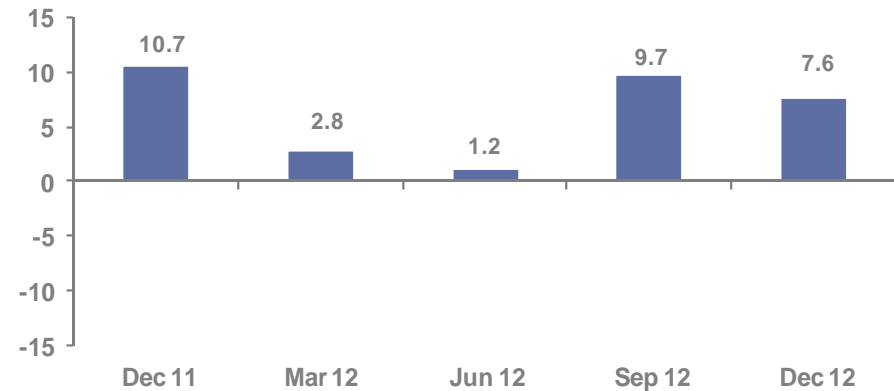
Long-Term Net Flows (\$B)



Organic Growth Rate

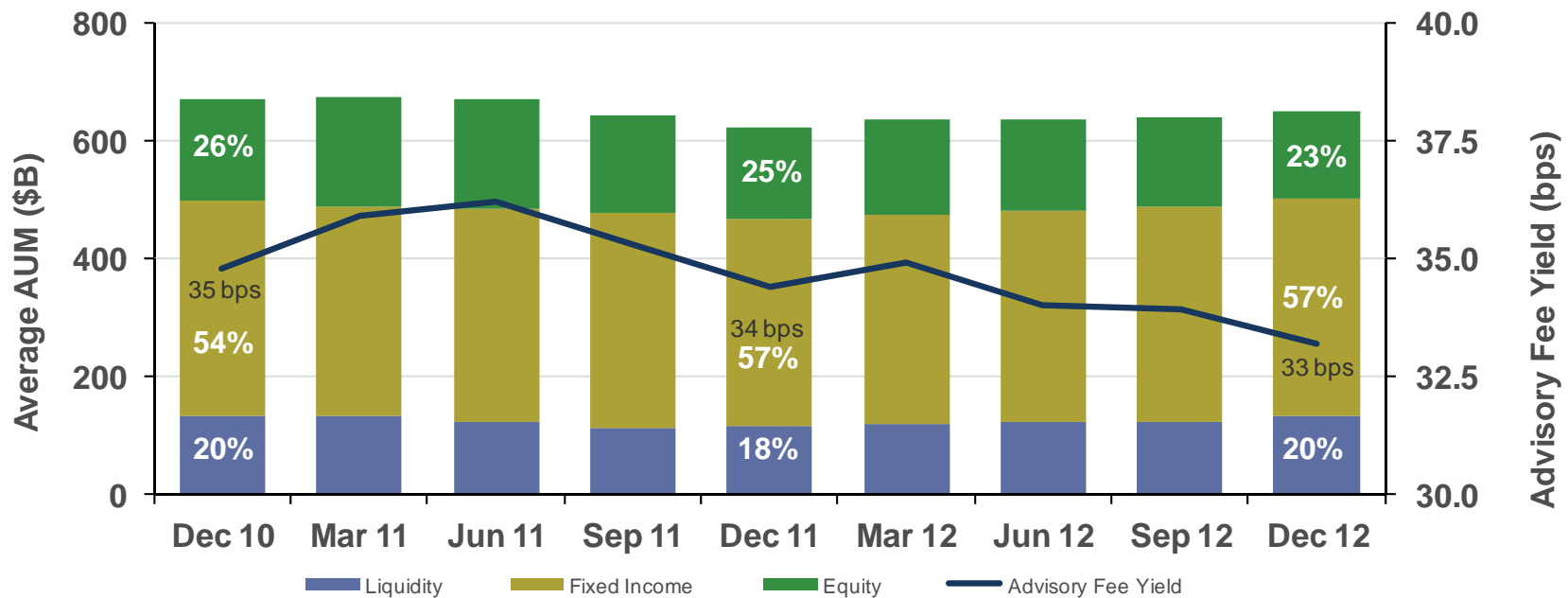
Dec 11	-9.5%
Mar 12	-6.1%
Jun 12	-2.9%
Sep 12	-7.4%
Dec 12	-11.5%

Liquidity Net Flows (\$B)



- Equity outflows were driven largely by broad market outflows and specific performance challenges
- Approximately 75% of Fixed Income outflows driven by continued Global Sovereign mandate redemptions, PPIP liquidation, and loss of a state pension account
- Liquidity inflows driven by non-US institutional funds

Advisory Fee Yield / Average AUM



- Decrease in advisory fee yield reflects decline in higher yielding average Equity AUM of 2%, combined with an increase in average Liquidity AUM of 7%

Operating Expenses

(\$ millions)	Dec 12	Sep 12	% Chg	Dec 11	% Chg
Compensation and benefits	\$ 308.2	\$ 302.5	2%	\$ 263.2	17%
Distribution and servicing	143.4	145.1	(1%)	148.3	(3%)
Communications and technology	38.4	35.8	7%	43.5	(12%)
Occupancy	31.1	27.3	14%	56.4	(45%)
Amortization of intangible assets	3.5	3.5	n/m	4.9	(28%)
Impairment of intangible assets	734.0	-	n/m	-	n/m
Other	48.6	46.4	5%	51.4	(5%)
Total Operating Expenses	<u>\$ 1,307.2</u>	<u>\$ 560.6</u>	133%	<u>\$ 567.7</u>	130%

- Operating expenses, excluding non-cash impairment of intangible assets increased \$13M, or 2% compared to the prior quarter
- Communications and technology expenses in the prior quarter included a credit related to renegotiation of vendor contracts.
- Occupancy expense increased due to a lease reserve reduction in the prior quarter
- Other expenses increased due to higher T&E and transaction-related legal costs, partially offset by annual director fees last quarter

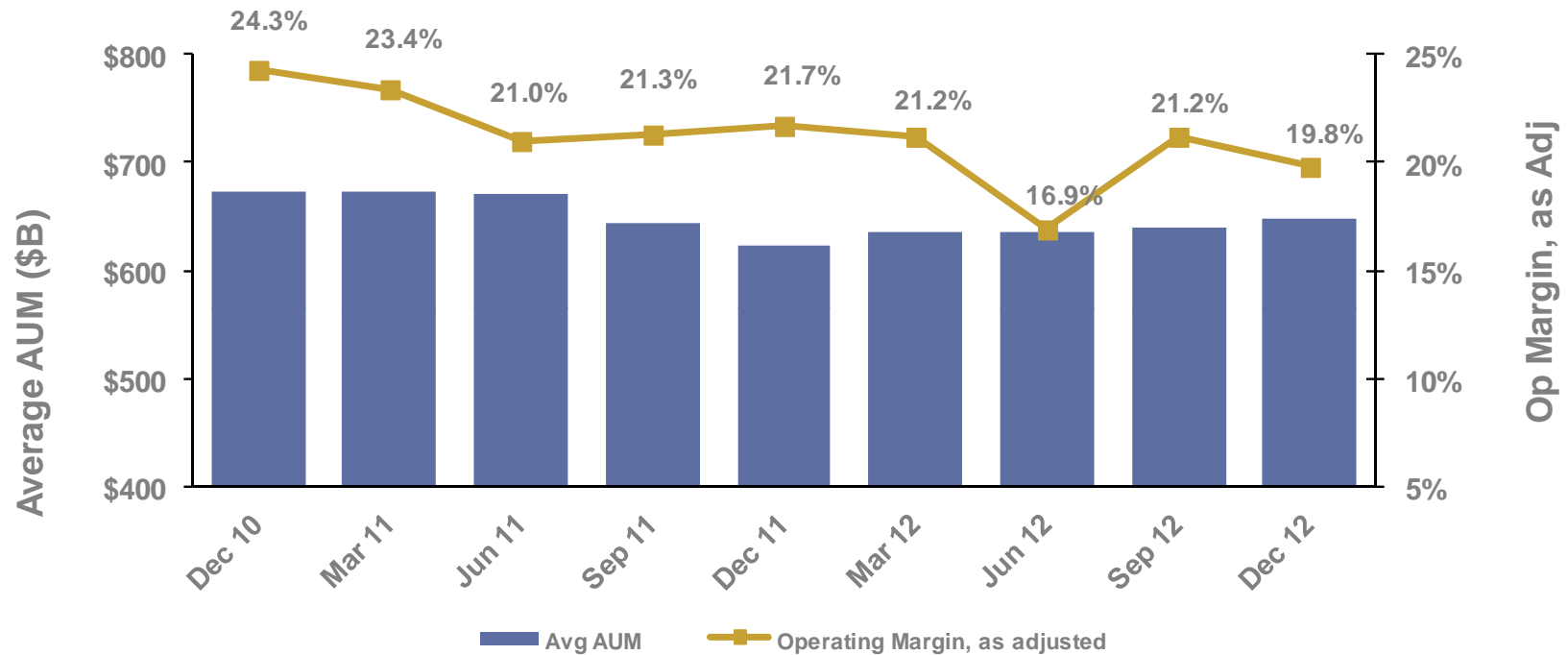
Compensation and Benefits

(\$ millions)	Dec 12	% of Net Rev. ¹	Sep 12	% of Net Rev. ¹	\$ Change
Salary and incentives	\$ 249.5	47%	\$ 227.3	46%	\$ 22.2
Benefits and payroll taxes	51.8	10%	46.4	9%	5.4
Subtotal Compensation and benefits	301.3	57%	273.7	55%	27.6
Management transition costs and severance	3.2	0%	4.4	1%	(1.2)
MTM deferred comp. and seed investments	3.7	1%	24.4	5%	(20.7)
Total Compensation and Benefits	\$ 308.2	58%	\$ 302.5	61%	5.7

- Increase in total compensation and benefits driven by higher performance fees and accelerated deferred compensation, the impact of Permal restructuring, and CEF costs, partially offset by lower mark to market on deferred compensation and seed investments
- Benefits include \$3.8M of deferred compensation vesting accelerated from 4th quarter
- Management transition costs included in the current quarter are \$2.4M compared to \$4.1M in prior quarter
- Impact of accelerated deferred compensation, Permal restructuring, and CEF launch on compensation ratio approximately 2%

¹ Net revenue is equal to operating revenues, as adjusted

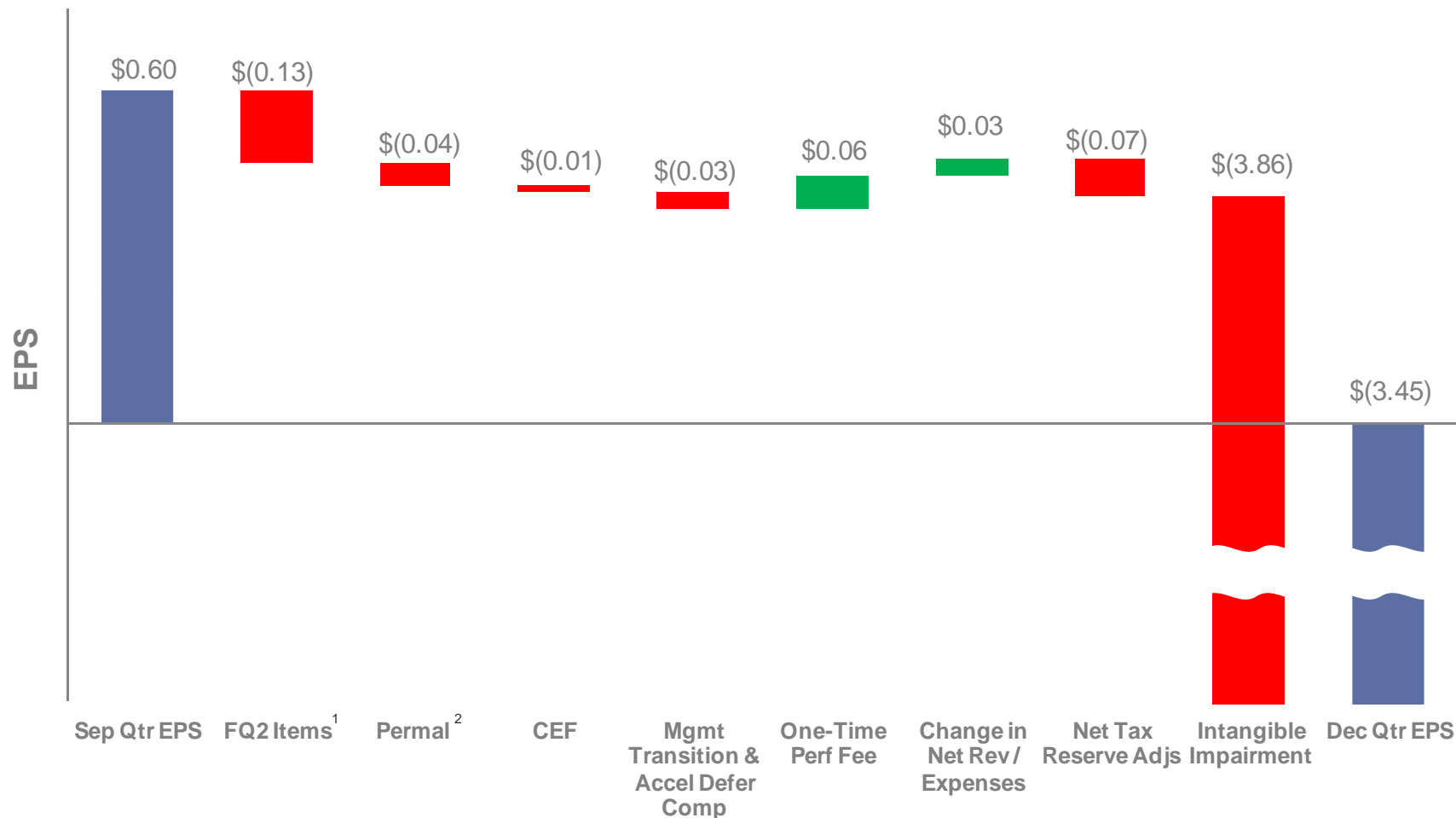
Operating Margin, as Adjusted



- Impact of accelerated deferred compensation, Permal restructuring and CEF approximately 2% on operating margin, as adjusted
- Benefit of one-time PPIP fee was approximately 1% on operating margin, as adjusted

Note: See Appendix for GAAP reconciliation

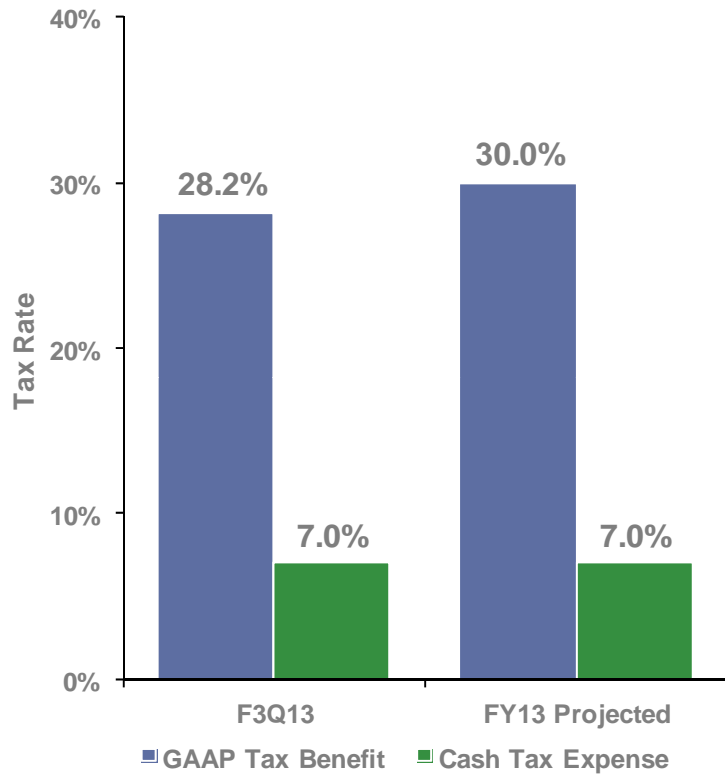
Third Quarter Earnings Per Share Rollforward



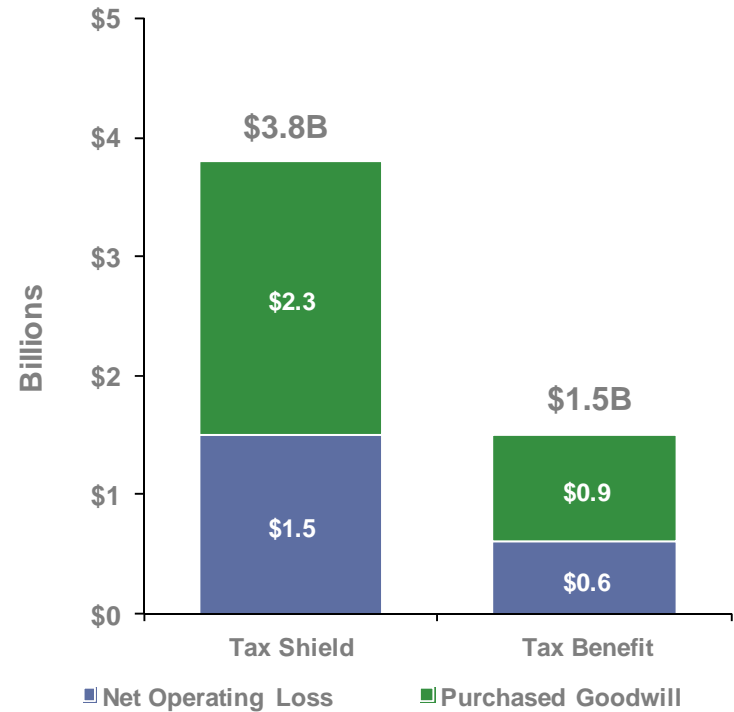
¹ UK tax rate adjustment

² Includes restructuring costs of \$5.8M and acquisition costs of \$1.3M

Significant Tax Benefit - \$3.8B of Future Income Sheltered

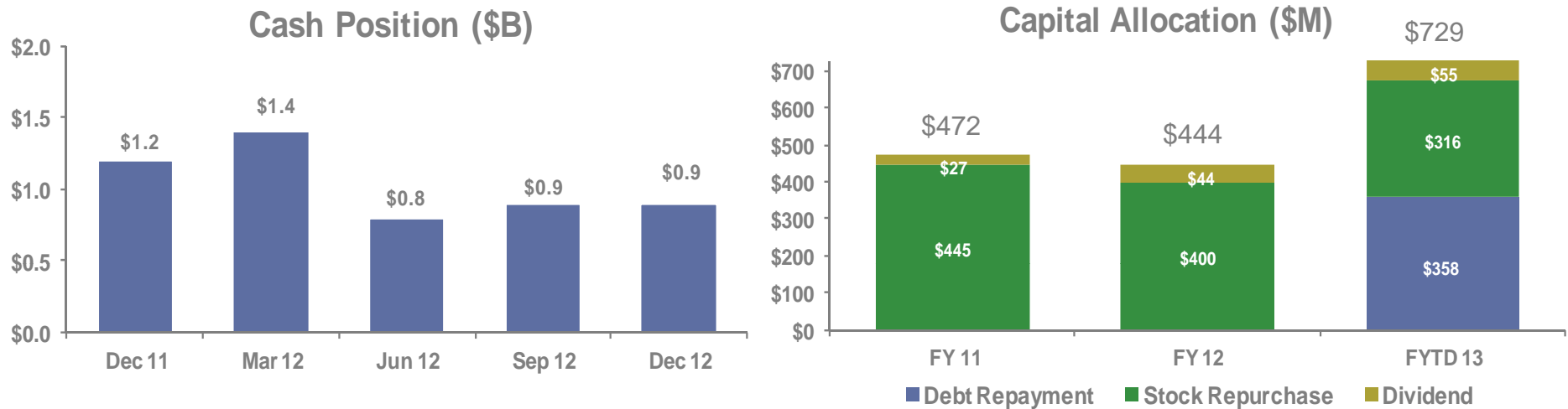


- GAAP tax benefit driven by non-cash impairment charge



- Future income of \$3.8 billion is sheltered from federal or state income tax, based on usage of NOL, FTC carryforwards and amortization of tax deductible goodwill

Cash Utilization & Balance Sheet Improvement



- Accelerated 4th quarter dividend payment
- Announced Fauchier Partners acquisition agreement
- Continued share repurchase

Driving Shareholder Value

- Strong foundation for the future
 - Global firm with distinct affiliate businesses and respected brands
 - Diversified across asset classes, geographies, clients and channels
 - Strong performance across all periods
 - Solid balance sheet and cash position
 - Proven ability to return capital to shareholders
- Primary goals
 - Long-term flows
 - Revenue growth
 - Margin expansion and EPS leverage
- Areas of focus
 - Investment products and strategies
 - Operating efficiencies
 - Acquisitions
 - Affiliate alignment

Appendix

Appendix – GAAP Reconciliation Adjusted Income¹

	Quarters Ended		
	Dec 12	Sep 12	Dec 11
(\$ millions, except per share amounts)			
Net Income (Loss) Attributable to Legg Mason, Inc.	\$ (453.9)	\$ 80.8	\$ 28.1
Plus (less):			
Amortization of intangible assets	3.5	3.5	4.9
Impairment of intangible assets	734.0	-	-
Deferred income taxes on intangible assets:			
Impairment charges	(225.7)	-	-
Tax amortization benefit	33.9	33.9	34.0
U.K. tax rate adjustment	-	(18.1)	-
Imputed interest on convertible debt (2.5% senior notes)	-	-	9.8
Adjusted Income	<u>\$ 91.8</u>	<u>\$ 100.1</u>	<u>\$ 76.8</u>
Net Income (Loss) per Diluted Share Attributable to Legg Mason, Inc. Common Shareholders	\$ (3.45)	\$ 0.60	\$ 0.20
Plus (less):			
Amortization of intangible assets	0.03	0.03	0.04
Impairment on intangible assets	5.58	-	-
Deferred income taxes on intangible assets:			
Impairment charges	(1.72)	-	-
Tax amortization benefit	0.26	0.25	0.24
U.K. tax rate adjustment	-	(0.13)	-
Imputed interest on convertible debt (2.5% senior notes)	-	-	0.07
Adjusted Income per Diluted Share	<u>\$ 0.70</u>	<u>\$ 0.75</u>	<u>\$ 0.55</u>

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

Appendix – GAAP Reconciliation

Operating Margin, as adjusted¹

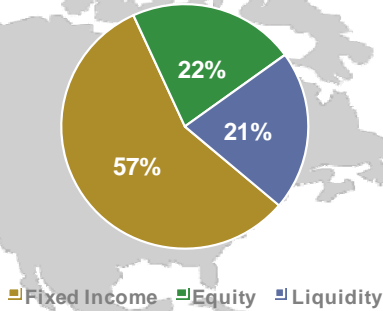
(\$ millions)	Quarters Ended								
	Dec 10	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12
Operating Revenues, GAAP basis	\$ 721.9	\$ 713.4	\$ 717.1	\$ 669.9	\$ 627.0	\$ 648.6	\$ 630.7	\$ 640.3	\$ 673.9
Plus (less):									
Operating revenues eliminated upon consolidation of investment vehicles	1.2	1.2	1.1	0.6	0.8	0.7	0.6	0.6	0.6
Distribution and servicing expense excluding consolidated investment vehicles	(187.4)	(174.8)	(180.7)	(160.4)	(148.3)	(160.3)	(169.8)	(145.1)	(143.4)
Operating Revenues, as Adjusted	<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>	<u>\$ 495.8</u>	<u>\$ 531.1</u>
Operating Income (Loss), GAAP basis	\$ 97.0	\$ 99.1	\$ 100.4	\$ 106.9	\$ 59.3	\$ 72.2	\$ 76.1	\$ 79.7	\$ (633.3)
Plus (less):									
Gains (losses) on deferred compensation and seed investments	8.6	10.2	(2.4)	(14.2)	1.7	28.7	1.2	24.4	3.7
Transition-related costs	24.0	15.7	13.7	15.1	42.3	1.9	-	-	-
Impairment of intangible assets	-	-	-	-	-	-	-	-	734.0
Operating income and expenses of consolidated investment vehicles	0.6	1.4	1.2	0.9	0.9	0.8	0.6	0.9	0.7
Operating Income, as Adjusted	<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>	<u>\$ 105.0</u>	<u>\$ 105.1</u>
Operating Margin, GAAP basis	13.4%	13.9%	14.0%	16.0%	9.5%	11.1%	12.1%	12.5%	-94.0%
Operating Margin, as Adjusted	24.3%	23.4%	21.0%	21.3%	21.7%	21.2%	16.9%	21.2%	19.8%

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

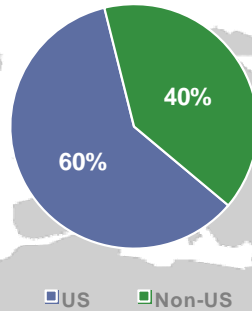
Appendix - Asset & Revenue Diversity

Total AUM \$649B

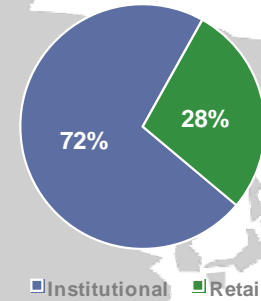
AUM by Asset Class



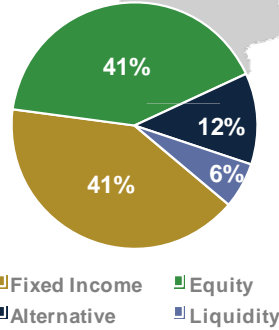
AUM by Client Domicile



AUM by Client



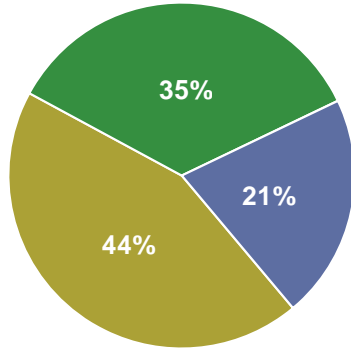
FYTD 2013 Gross Revenues \$1,945M



Data as of December 31, 2012

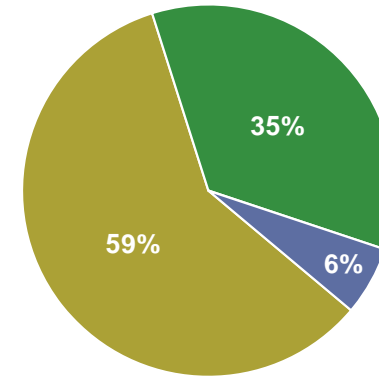
Appendix - Global Distribution

AUM by Channel



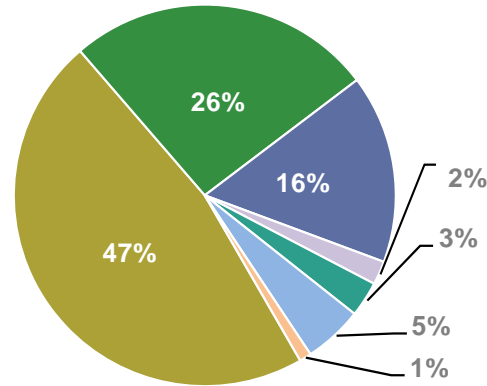
■ US Retail ■ US Individual ■ International

AUM by Product



■ Funds ■ SMA/Sep Accts ■ Closed End

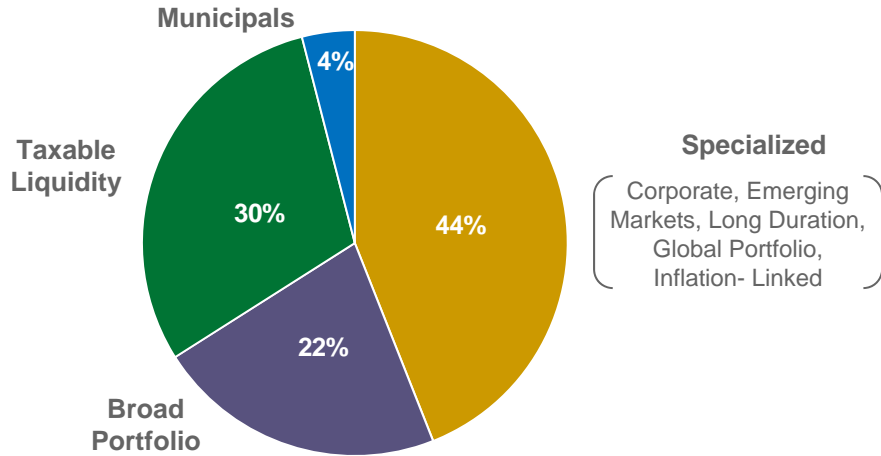
AUM by Affiliate



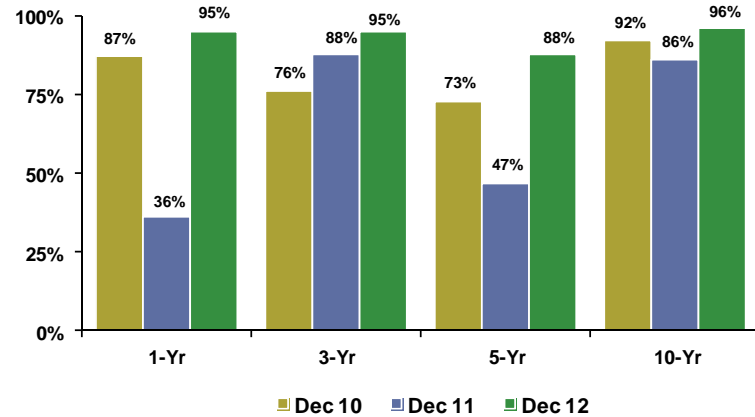
■ WAM ■ CB/GC ■ Royce ■ LCMCM
 ■ BFM ■ BGIM ■ LM Glb Eq

Appendix - Western Asset Update

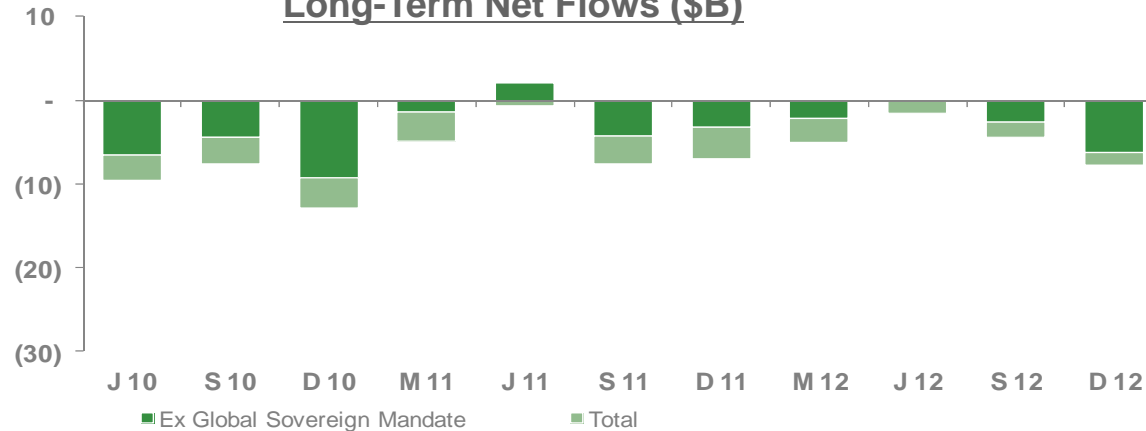
Total AUM by Mandate: \$462B



% of Strategy AUM Beating Benchmark¹



Long-Term Net Flows (\$B)



¹ Western Asset marketed strategy assets including liquidity

Appendix – Strategy Performance

For purposes of investment performance comparisons, strategies are an aggregation of discretionary portfolios (separate accounts, investment funds, and other products) into a single group that represents a particular investment objective. In the case of separate accounts, the investment performance of the account is based upon the performance of the strategy to which the account has been assigned. Each of our asset managers has its own specific guidelines for including portfolios in their strategies. For those managers which manage both separate accounts and investment funds in the same strategy, the performance comparison for all of the assets is based upon the performance of the separate account.

Ninety percent of total AUM is included in strategy AUM as of December 31, 2012, although not all strategies have three, five, and ten year histories. Total strategy AUM includes liquidity assets. Certain assets are not included in reported performance comparisons. These include: accounts that are not managed in accordance with the guidelines outlined above; accounts in strategies not marketed to potential clients; accounts that have not yet been assigned to a strategy; and certain smaller products at some of our affiliates.

Past performance is not indicative of future results. For AUM included in institutional and retail separate accounts and investment funds managed in the same strategy as separate accounts, performance comparisons are based on gross-of-fee performance. For investment funds (including fund-of-hedge funds) which are not managed in a separate account format, performance comparisons are based on net-of-fee performance. These performance comparisons do not reflect the actual performance of any specific separate account or investment fund; individual separate account and investment fund performance may differ. The information in this presentation is provided solely for use in connection with this presentation, and is not directed toward existing or potential clients of Legg Mason.