LEGG MASON, INC.
Form DEF 14A
June 16, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No.)

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Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material under §240.14a-12

LEGG MASON, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
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100 International Drive

Baltimore, Maryland 21202

June 16, 2011

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders which will be held at the Company s headquarters located at 100 International Drive, 4th Floor Conference Center, Baltimore, Maryland at 10:00 a.m. on Tuesday, July 26, 2011. On the following pages, you will find the Notice of Annual Meeting and Proxy Statement.

Whether or not you plan to attend, it is important that your shares be represented and voted at the meeting. Please grant a proxy to vote your shares in one of three ways: via the Internet, telephone or mail.

I hope that you will attend the meeting, and I look forward to seeing you there.

Sincerely,

MARK R. FETTING

Chairman of the Board and

Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Tuesday, July 26, 2011

To the Stockholders of

LEGG MASON, INC.:

The Annual Meeting of Stockholders of Legg Mason, Inc., a Maryland corporation, will be held at the Company s headquarters located at 100 International Drive, 4th Floor Conference Center, Baltimore, Maryland, on Tuesday, July 26, 2011 at 10:00 a.m. to consider and vote upon:

(1) The election of five directors for the three-year term ending in 2014;

(2) Amendment and re-approval of the Legg Mason, Inc. 1996 Equity Incentive Plan;

(3) Amendment of the Legg Mason, Inc. Articles of Incorporation to provide for the annual election of directors;

(4) An advisory vote on the compensation of the Company s named executive officers;

(5) An advisory vote on the frequency with which to hold an advisory vote on the compensation of the Company s named executive officers;

(6) Ratification of the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm for the fiscal year ending March 31, 2012; and

(7) Any other matter that may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on May 24, 2011 as the date for determining stockholders of record entitled to notice of and to vote at the Annual Meeting.

This year, we will reduce our mailing and printing costs by taking advantage of Securities and Exchange Commission rules that allow us to provide proxy materials to you over the Internet. On or about June 16, 2011, we will mail to our stockholders a Notice of Internet Availability of Proxy Materials (Notice) containing instructions on how to access this Proxy Statement and our 2011 Annual Report online. The Notice also provides instructions on how to vote via the Internet or by telephone and how to request a paper copy of the proxy materials, if you so desire. Whether you receive the Notice or paper copies of our proxy materials, the Proxy Statement and 2011 Annual Report are available to you at *http://ir.leggmason.com/docs.aspx?iid=102761*.

Your attention is directed to the accompanying Proxy Statement and 2011 Annual Report to Stockholders.

By order of the Board of Directors,

THOMAS C. MERCHANT

Secretary

June 16, 2011

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PROXY STATEMENT

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100 International Drive

Baltimore, Maryland 21202

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

Tuesday, July 26, 2011

The Board of Directors of Legg Mason, Inc. is soliciting proxies from its stockholders. If you grant a proxy, you may revoke it at any time before we exercise it. We are soliciting proxies by mail and MacKenzie Partners, our proxy solicitors, and our officers, directors and other employees may also solicit proxies by telephone or any other means of communication. We will bear the cost of soliciting proxies, including a fee of $12,500, plus expenses, paid to MacKenzie Partners for their services. We may reimburse brokers, banks, custodians, nominees and other fiduciaries for their reasonable out-of-pocket expenses in forwarding the Notice of Internet Availability of Proxy Materials and other proxy materials to their principals.

In accordance with rules and regulations of the U.S. Securities and Exchange Commission (SEC), instead of mailing a printed copy of our proxy materials to each stockholder of record or beneficial owner, we are furnishing proxy materials, which include this Proxy Statement, to our stockholders over the Internet. If you have received a Notice of Internet Availability of Proxy Materials (Notice) by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice will instruct you as to how you may access and review all of the important information contained in the proxy materials. The Notice also instructs you as to how you may submit your proxy over the Internet or by telephone. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions in the Notice for requesting such materials.

It is anticipated that the Notice will be available to stockholders on June 16, 2011.

To be entitled to notice of and to vote at the meeting, you must have been a stockholder of record at the close of business on May 24, 2011. As of the close of business on that date, we had outstanding and entitled to vote 148,688,069 shares of our common stock, $.10 par value, each of which is entitled to one vote.

If you hold shares in your name as a holder of record, you may vote your shares in one of four ways:

By Internet: go to *www.voteproxy.com* and follow the instructions. You will need your Notice or proxy card to vote your shares this way.

By telephone: call 1.800.PROXIES (1-800-776-9437) and follow the voice prompts. You will need your Notice or proxy card to vote your shares this way.

By mail: request a paper proxy card in accordance with the instructions contained in the Notice and then complete, sign and date the proxy card and return it so that it is received by 11:59 p.m. EDT on July 25, 2011.

In person: if you are a stockholder as of May 24, 2011, you may vote in person at the meeting. Submitting a proxy will not prevent a stockholder from attending the Annual Meeting.

If you hold your shares through a securities broker or nominee (that is in street name), you may vote your shares by proxy in the manner described in the Notice provided to you by that broker or nominee.

We must have a quorum of stockholders (at least 50% of all stockholders) present at the meeting either in person or represented by proxy in order for any business to be conducted. If a quorum of stockholders is present at the meeting, the following voting requirements will apply:

Directors are elected by the vote of a majority of the total votes cast for and affirmatively withheld by the stockholders present in person or represented by proxy at the meeting. Abstentions and broker

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non-votes will not affect the majority vote for the election of directors. If an incumbent nominee is not elected by the requisite vote, he or she must tender a resignation and the Board of Directors, through a process managed by the Nominating & Corporate Governance Committee, will decide whether to accept the resignation. The Board of Directors will publicly disclose its decision within 90 days after the results of the election are certified.

The amendment and re-approval of the Legg Mason, Inc. 1996 Equity Incentive Plan requires the affirmative vote of a majority of the votes cast on the proposal, and the total votes cast on the proposal must represent over 50% of all shares entitled to vote on the proposal. Therefore, if holders of more than 50% in interest of all shares entitled to vote on the proposal cast votes, abstentions and broker non-votes will not affect the result of the vote. However, if holders of less than 50% in interest of all shares entitled to vote on the proposal cast votes, abstentions and broker non-votes will have the same effect as a vote against the proposal.

The amendment of the Legg Mason, Inc. Articles of Incorporation requires the affirmative vote of 70% of all shares entitled to vote on the proposal. Abstentions and broker non-votes with regard to this proposal will have the same effect as a vote against it.

The advisory vote on named executive officer compensation requires the affirmative vote of a majority of the total votes cast on this proposal. Abstentions and broker non-votes are not considered votes cast and will not affect the outcome of this proposal. The vote on this proposal is advisory only and not binding on the company.

For the advisory vote on the frequency of future votes on named executive officer compensation, the frequency (every year, every two years or every three years) receiving the greatest number of votes will be considered the frequency recommended by stockholders. Abstentions and broker non-votes are not considered votes cast and will not affect the outcome of this proposal. The vote on this proposal is advisory only and not binding on the company.

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ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes. Each year, one class is elected to serve for a term of three years. Our stockholders will vote at this Annual Meeting for the election of five directors for the three-year term expiring at the Annual Meeting of Stockholders in 2014.

All nominees presently serve as directors. Unless a stockholder withholds authority to vote, the persons named in the proxy will vote for the election of the nominees named. If any nominee is unable to serve, the persons named in the proxy may vote for a substitute nominee that they determine. Our Board of Directors has no reason to believe that any nominee will be unable to serve.

Legg Mason is proposing and recommending that stockholders approve an amendment of the Articles of Incorporation that would eliminate the classified board structure and provide for annual elections of all directors commencing at the Annual Meeting in 2014. *See* Proposed Amendment of the Legg Mason, Inc. Articles of Incorporation to Provide for the Annual Election of Directors below.

The Board of Directors recommends a vote FOR the election of each nominated director.

Nominees for Director for the Term Expiring in 2014

Harold L. Adams, age 72, has been a director of Legg Mason since January 1988. He has been the Chairman Emeritus of RTKL Associates, Inc., an international architecture, engineering and planning firm, since April 2003. He has served as a director of Lincoln Electric Holdings, Inc. since 2002 and Commercial Metals Company since 2004.

Mr. Adams qualifications to serve on our Board include his knowledge and experience gained in over 36 years of service as Chairman, President and Chief Executive Officer of an international architectural firm. Mr. Adams has also served as a leader on U.S. business advisory councils with Korea and China and the Services Policy Advisory Board to the U.S. Trade Negotiator and is Chairman of the Governor s International Advisory Council for the State of Maryland. In these roles, Mr. Adams worked in many major international markets in a myriad of economic climates and cultures. He also has served as the Lead Independent Director of Lincoln Electric Holdings, Inc. since December 2004.

John T. Cahill, age 54, has been a director of Legg Mason since February 2010. Since 2008, Mr. Cahill has been an industrial partner at Ripplewood Holdings, LLC., a private equity firm. He has been Chairman of Hostess Brands, Inc. (Hostess), a Ripplewood portfolio company, since 2009. From 2002-2007, Mr. Cahill was the Chairman of The Pepsi Bottling Group, Inc. (PBG), a bottler of Pepsi-Cola beverages, and served as its Chief Executive Officer from 2001-2006; Chief Operating Officer from 2000-2001 and Chief Financial Officer and Head of International Operations from 1998-2000. Mr. Cahill has served as a director of Colgate-Palmolive Company (Colgate) since November 2005 and served as a director of PBG from March 1999 to April 2007.

Mr. Cahill s qualifications to serve on our Board include his significant financial management, operational and leadership experience gained during his twenty-year career at PBG and PepsiCo Inc. and his experience gained serving as Chairman of Hostess Audit Committee, Deputy Chairman of Colgate s Personnel and Organizational Committee, which oversees compensation matters, and Chairman of Colgate s Audit Committee. Our Board has determined that Mr. Cahill qualifies as an audit committee financial expert under the rules and regulations of the SEC.

Mark R. Fetting, age 56, has been a director of Legg Mason since January 2008. Mr. Fetting was elected President and Chief Executive Officer of Legg Mason in January 2008 and Chairman of the Board in December 2008. He served as Senior Executive Vice President of Legg Mason from July 2004 to January 2008 and as Executive Vice President from July 2001 to July 2004. Mr. Fetting is a director of 16 funds within the Legg Mason Funds mutual funds complex and 31 funds within The Royce Funds mutual funds complex.

Mr. Fetting s qualifications to serve on our Board include his knowledge and leadership of our business and his experience gained in working more than 30 years in the investment management industry. Mr. Fetting joined Legg Mason in 2000 and has served as our Chief Executive Officer and President since 2008.

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Margaret Milner Richardson, age 68, has been a director of Legg Mason since November 2003. She is currently engaged in private consulting and investment activities. Ms. Richardson has served as a director of Jackson Hewitt Tax Service Inc. since June 2004.

Ms. Richardson s qualifications to serve on our Board include her experience as a partner of Ernst & Young LLP where she served as the National Director of IRS Practice and Procedure and an advisor to the Foreign Investment Advisory Council in Russia. Ms. Richardson also served as U.S. Commissioner of Internal Revenue. She has been an attorney for more than 40 years and practiced tax law with Sutherland, Asbill and Brennan in Washington, D.C. Ms. Richardson was a member of the Internal Revenue Service Commissioner s Advisory Group and chaired the group for a year.

Kurt L. Schmoke, age 61, has been a director of Legg Mason since January 2002. Mr. Schmoke has been Dean of the School of Law at Howard University since January 2003. He has been a director of The McGraw-Hill Companies, Inc. since 2003.

Mr. Schmoke s qualifications to serve on our Board include his substantial education, legal, government regulation and public policy experience. Mr. Schmoke gained his experience serving as the Dean of the Law School at Howard University, partner at the law firm of Wilmer Cutler & Pickering, Mayor of Baltimore, the State s Attorney for Baltimore, a member of the Council on Foreign Relations and a member of President Jimmy Carter s domestic policy staff.

Directors Continuing in Office

Directors whose terms will expire in 2013

Dennis R. Beresford, age 72, has been a director of Legg Mason since September 2002. He is currently a professor at the University of Georgia, a position he has held since 1997. Mr. Beresford has served as a director of the Federal National Mortgage Association since May 2006. Mr. Beresford served as a director of Kimberly-Clark Corporation from November 2002 through April 2011 and MCI, Inc. (formerly WorldCom, Inc.) from July 2002 to January 2006.

Mr. Beresford s qualifications to serve on our Board include his substantial accounting experience and expertise. Mr. Beresford was appointed to the Securities and Exchange Commission Advisory Committee on Improvements to Financial Reporting, served as the Chairman of the Financial Accounting Standards Board for ten years and served as the National Director of Accounting Standards for Ernst & Young LLP. He has also served as a Director of the National Association of Corporate Directors since January 2009. Our Board has determined that Mr. Beresford, a certified public accountant, qualifies as an audit committee financial expert under the rules and regulations of the SEC.

Nelson Peltz, age 68, has been a director of Legg Mason since October 2009. Mr. Peltz has served as the Chief Executive Officer and a founding partner of Trian Fund Management, L.P. (Trian) since its formation in 2005. From April 1993 through June 2007, Mr. Peltz served as Chairman and Chief Executive Officer of Triarc, which, during that period, owned Arby s Restaurant Group, Inc. and Snapple Beverage Group, as well as other consumer and industrial businesses. Mr. Peltz has served as the non-executive Chairman of Wendy s/Arby s Group, Inc. since June 2007 and as a director of H.J. Heinz Company since September 2006. Mr. Peltz served as a director of Trian Acquisition I Corp. from October 2007 to January 2010, of Deerfield Capital Corp. from December 2004 to December 2007 and of Encore Capital Group, Inc. from February 1998 to October 2001 and from January 2003 to June 2006. Mr. Peltz was nominated to serve on the Board pursuant to an agreement with Trian, funds managed by Trian and certain of its affiliates.

Mr. Peltz s qualifications to serve on our Board include more than 40 years of business and investment experience and 20 years of service as the Chairman and Chief Executive Officer of public companies. Mr. Peltz has developed extensive experience working with management teams and boards of directors, and in acquiring, investing in and building companies and implementing operational improvements at the companies with which he has been involved. As a result, he has strong operating experience and strategic planning skills and has strong relationships with institutional investors, investment banking and capital markets advisors and others that can be drawn upon for the company s benefit.

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W. Allen Reed, age 64, has been a director of Legg Mason since April 2006. He is a Senior Advisor for Aetos Capital, Inc., a real estate and private equity asset management company, and is engaged in private investment activities. From January 2006 to March 2006, Mr. Reed served as Chairman of the Board of General Motors Asset Management Corporation (GMAMC), the investment management subsidiary of General Motors Corporation, where he served as Vice President until March 2006. He also served as Chairman of the Board and Chief Executive Officer of General Motors Trust Bank, N.A. until March 2006; as Chief Executive Officer and President of GMAMC and General Motors Investment Management Corporation until December 2005; and as Chairman of the Board and Chief Executive Officer of General Motors Trust Company until March 2006. Mr. Reed has served as a director of Temple-Inland Inc. since 2000 and numerous mutual funds (102 as of December 31, 2010) in the Morgan Stanley mutual funds complex since 2006. Mr. Reed also served as a director of General Motors Acceptance Corp from September 1994 to March 2006 and of iShares, Inc. from July 1996 to June 2006.

Mr. Reed s qualifications to serve on our Board include his extensive financial and leadership experience serving as a financial officer at Delta Airlines, Hughes Electronics and General Motors, including serving as the Chairman, President and CEO of GMAMC, Chairman and CEO of the General Motors Trust Bank, and a Vice President of General Motors Corporation. Mr. Reed s experience includes running the largest corporate defined benefit fund at General Motors Corporation. He currently holds the Chartered Financial Analyst designation.

Nicholas J. St. George, age 72, has been a director of Legg Mason since July 1983. He is engaged in private investment activities.

Mr. St. George s qualifications to serve on our Board include his 20 years of leadership, management and operational experience serving as the Chairman and Chief Executive Officer of Oakwood Homes Corporation, a manufacturer, financier and insurer of manufactured homes, and ten years of experience from 1966 to 1976 as head of investment banking for our former brokerage subsidiary. Mr. St. George, a lawyer, also has a long-standing history on our Board serving, at times during his tenure on our Board, as our Lead Independent Director and Chairman of the Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee.

Directors whose terms will expire in 2012

Robert E. Angelica, age 64, has been a director of Legg Mason since February 2007 and is currently engaged in private investment activities. From 1999 through December 2006, Mr. Angelica served as the Chairman and Chief Executive Officer of AT&T Investment Management Corporation (ATTIMCO), an asset management subsidiary of AT&T Inc.

Mr. Angelica s qualifications to serve on our Board include his extensive financial industry knowledge and substantial leadership experience serving as the Chairman and Chief Executive Officer of ATTIMCO, which is responsible for the investment and administration of more than $80 billion of employee benefit plan assets for AT&T Inc. Mr. Angelica s diverse experience includes the development of asset allocation policies and strategies, risk management, selection of external investment managers and trustees, in-house asset management, regulatory compliance and accounting and financial reporting. He currently holds the Chartered Financial Analyst designation.

Barry W. Huff, age 67, has been a director of Legg Mason since June 2009 and is currently engaged in private consulting. Since his retirement in May 2008 from Deloitte & Touche USA LLP (Deloitte), an accounting firm, until March 2009, Mr. Huff provided consulting services to Deloitte. From 1995 to May 2008, Mr. Huff served as Vice Chairman, Office of the Chief Executive Officer at Deloitte.

Mr. Huff s qualifications to serve on our Board include his substantial accounting and auditing experience and expertise. Mr. Huff served as Deloitte s National Managing Director for their Accounting & Auditing Practice in the United States and Chairman of its Global Accounting & Auditing Committee. Mr. Huff s experience includes risk management activities related to Deloitte s Accounting & Auditing Practice and oversight and advisory services provided to Deloitte s clients in the United States and globally in various industries, including financial services, manufacturing and regulatory. Our Board has determined that Mr. Huff, a certified public accountant, qualifies as an audit committee financial expert under the SEC s rules and regulations.

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John E. Koerner III, age 68, has been a director of Legg Mason since October 1990. Since 1995, he has been the managing member of Koerner Capital, LLC, a private investment company, or the President of its predecessor, Koerner Capital Corporation. Mr. Koerner has been a director of Lamar Advertising Company since 2007.

Mr. Koerner s qualifications to serve on our Board include his extensive experience in corporate finance and the management of capital intensive organizations and capital markets activities during his career at Koerner Capital, LLC and as President and co-owner of Barq s, Inc. and its subsidiary, The Delaware Punch Company. Mr. Koerner s experience also includes service as a member of a number of civic boards.

Cheryl Gordon Krongard, age 55, has been a director of Legg Mason since January 2006 and is engaged in private investment activities. Ms. Krongard served as a senior partner of Apollo Management, L.P., a private investment company, from January 2002 to December 2004. From 1994 to 2000, she served as the Chief Executive Officer of Rothschild Asset Management and as Senior Managing Director for Rothschild North America. Additionally, she served as a director of Rothschild North America, Rothschild Asset Management, Rothschild Asset Management BV, and Rothschild Realty Inc. and as Managing Member of Rothschild Recovery Fund. She was elected a lifetime governor of the Iowa State University Foundation in 1997 and has served as Chairperson of its Investment Committee. Ms. Krongard is also a member of the Dean s Advisory Council, Iowa State University College of Business. Ms. Krongard has served as a director of US Airways Group Inc. since 2005 and served as a director of Educate, Inc. from 2004 to 2007.

Ms. Krongard s qualifications to serve on our Board include her asset management expertise and leadership experience serving as a senior executive at large, complex asset management organizations. Ms. Krongard s experience includes strategic planning, new product development, client relations, marketing and public relations. Our Board has determined that Ms. Krongard qualifies as an audit committee financial expert under the rules and regulations of the SEC.

Scott C. Nuttall, age 38, has been a director of Legg Mason since January 2008. Mr. Nuttall is a Member of the general partner of Kohlberg Kravis Roberts & Co. (KKR & Co.), an alternative asset management firm, has been with KKR & Co. for over 12 years and is the head of KKR & Co. s Global Capital and Asset Management Group. He has served as a director of Capmark Financial Group Inc. since 2006, and First Data Corporation and KKR Financial Holdings LLC since 2004. Mr. Nuttall served as a director of Willis Group Holdings Ltd., from 2001 to 2006. Mr. Nuttall was nominated to serve on the Board pursuant to a Note Purchase Agreement under which we issued our 2.5% Senior Convertible Notes. Under the purchase agreement, KKR & Co. has the right to nominate one individual to the Board and the Compensation Committee for as long as KKR & Co. or its related parties own at least 50% of the outstanding notes and at least $625 million in notes remains outstanding.

Mr. Nuttall s qualifications to serve on our Board include his experience and knowledge acquired as the head of KKR & Co. s Global Capital and Asset Management Group, which includes KKR Asset Management, KKR Capital Markets and the Client and Partners Group. Mr. Nuttall has played a significant role in KKR & Co. s private equity investments and is actively involved in public companies affiliated with KKR. Mr. Nuttall also has substantial experience in merchant banking and merger and acquisition transactions.

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Committees of the Board Board Meetings

Our Board of Directors has an Audit Committee, a Compensation Committee, a Finance Committee, a Nominating & Corporate Governance Committee, and a Risk Committee. The current charters for these committees, as approved by our Board of Directors, are on, and may be printed from, our corporate website at *www.leggmason.com* under the *About Us Corporate Governance* section. We will provide a copy of these charters, without charge, to any stockholder who provides a written request for a copy. Requests for copies should be addressed to the Corporate Secretary, Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202. The membership of the Board s standing committees is as follows:

Director	Audit Committee	Compensation Committee	Finance Committee	Nominating & Corporate Governance Committee	Risk Committee
Harold L. Adams		C		M	
Robert E. Angelica	M				M
Dennis R. Beresford	C		M		M
John T. Cahill	M	M	C		
Mark R. Fetting			M		
Barry W. Huff	M				C
John E. Koerner III				M	M
Cheryl Gordon Krongard	M	M			
Scott C. Nuttall	M	M	M		
Nelson Peltz			M	M	
W. Allen Reed			M	C	
Margaret Milner Richardson	M				M
Nicholas J. St. George		M		M	
Kurt L. Schmoke		M		M	

C Chairman

M Member

During the fiscal year ended March 31, 2011, our Board of Directors met 6 times, our Audit Committee met 5 times, our Compensation Committee met 11 times, our Nominating & Corporate Governance Committee met 4 times and our Risk Committee met 4 times. Our Finance Committee was formed as a standing committee in April 2011 and did not hold any meetings during the fiscal year. While we have no formal policy on the matter, directors are generally expected to attend our Annual Meeting of Stockholders. All of our directors attended our 2010 Annual Meeting of Stockholders. During fiscal year 2011, each of our directors attended at least 75% of the aggregate number of meetings of the Board of Directors and all Board committees on which he or she served that were held during the period in which he or she was a director.

Audit Committee. The Audit Committee s primary purpose is to oversee our financial accounting and reporting to stockholders. Its duties include:

- selecting and compensating the independent registered public accounting firm (Independent Auditors);
- providing oversight of the work of the Independent Auditors and reviewing the scope and results of the audits conducted by them;
- reviewing the activities of our internal auditors;

discussing with Independent Auditors, internal auditors and management the organization and scope of our internal system of accounting and financial controls; and

reviewing and discussing certain matters that may have a material impact on our financial statements, including litigation and legal matters and critical accounting policies and estimates.

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Our Board of Directors has determined that Messrs. Beresford, Cahill and Huff and Ms. Krongard qualify as audit committee financial experts as defined by the SEC. Our Board of Directors has also determined that all members of our Audit Committee are independent as defined in the New York Stock Exchange Listing Standards and the applicable SEC rules.

Compensation Committee. The Compensation Committee s responsibilities include determining the compensation of our Chief Executive Officer (subject to the approval of our non-employee directors), approving the compensation of our chief financial officer and our three other most highly compensated executive officers and recommending to our Board of Directors the compensation to be paid to our non-employee directors. The Compensation Committee also serves as the administrative committee of several of our employee benefit plans.

Our Board of Directors has determined that all of the members of our Compensation Committee are independent as defined in the New York Stock Exchange Listing Standards.

Finance Committee. The Finance Committee s responsibilities include reviewing and making recommendations to the Board of Directors regarding the principal terms and conditions of debt or equity securities to be issued by the company; financial considerations relating to the acquisition of businesses or operations, the entry into joint ventures or the divestiture of company operations that require Board approval; and significant financial transactions involving the economic arrangements with the senior executives of a company subsidiary.

Our Board of Directors has determined that a majority of the members of our Finance Committee are independent as defined in the New York Stock Exchange Listing Standards.

Nominating & Corporate Governance Committee. The Nominating & Corporate Governance Committee s responsibilities include identifying qualified director nominees, nominating director candidates, recommending director committee assignments and developing and recommending to our Board of Directors corporate governance principles and a corporate code of conduct.

Our Board of Directors has determined that all of the members of our Nominating & Corporate Governance Committee are independent as defined in the New York Stock Exchange Listing Standards.

Risk Committee. The Risk Committee assists the Board in its oversight of Legg Mason s enterprise risk management activities. Its responsibilities include reviewing management s activities to establish and maintain an appropriate environment and culture for sound business risk practices, reviewing Legg Mason s enterprise risk management program and reviewing and discussing with members of management Legg Mason s risk tolerance, its major risk exposures and the steps management has taken to monitor and manage those exposures.

Our Board of Directors has determined that all of the members of our Risk Committee are independent as defined in the New York Stock Exchange Listing Standards.

Board Role in Risk Oversight

The Board is primarily responsible for the oversight of management s risk management activities and has delegated to the Risk Committee the responsibility to assist the Board in a majority of its risk oversight responsibilities. The Risk Committee oversees Legg Mason s enterprise risk management activities as discussed under Risk Committee above. In addition to the Risk Committee, the Audit Committee monitors our system of disclosure controls and procedures and internal controls over financial reporting and reviews contingent financial liabilities. The Risk Committee and the Audit Committee work together to help ensure that both committees have received all information necessary to permit them to fulfill their duties and responsibilities with respect to oversight of risk management activities. The Risk Committee also coordinates with the Nominating & Corporate Governance Committee, the Finance Committee and the Compensation Committee in relation to the activities of those committees that relate to the management of risks.

The responsibility for day-to-day management of risk lies with our management. Management has an enterprise risk management program that is overseen by our Chief Risk Officer. The Risk Committee, among other things, reviews and discusses with management reports from our Chief Risk Officer and other members of

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management regarding the company s risk management activities, including management s assessment of our major risk exposures and the steps taken to monitor and manage those exposures and the risk management activities of each of our significant asset management subsidiaries.

Relationship of Compensation and Risk

Legg Mason is a large company that conducts its business primarily through 13 asset managers supported by various corporate functions. Each of the asset managers is generally operated as a separate business. Within this structure, we have a wide variety of compensation practices and policies. Eight of the asset managers operate under revenue sharing agreements that, among other things, determine aggregate annual bonus pool amounts. However, the allocation of these bonus pool amounts varies by asset manager. The business functions that do not operate under revenue sharing agreements utilize a variety of discretionary or formulaic incentive compensation determinations. Executive officer compensation practices are discussed below under Executive Compensation Compensation Discussion and Analysis. We have considered the risks created by our compensation policies and practices, including mitigating factors, and, based on this review, do not believe that our compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the company.

Compensation Consultant to the Compensation Committee

In October 2010, the Compensation Committee retained Towers Watson, a global professional services firm, to provide compensation consulting services. The Compensation Committee changed compensation consultants to rotate to a new consultant who does not provide other services to the company or its management. As directed by the Compensation Committee, Towers Watson provides counsel on compensation-related issues and executive officer compensation and non-employee director compensation; and guidance on best practices and market and regulatory developments. Towers Watson did not provide additional consulting or other services to management or Legg Mason subsidiaries after it was retained by the Compensation Committee.

Before October 2010, the Compensation Committee engaged McLagan to provide compensation consulting services. McLagan provided counsel on compensation-related issues and non-employee director compensation; provided guidance on industry trends, best practices and market and regulatory developments; and, for fiscal year 2011, provided advice related to base salaries, the initial bonus pool under the executive compensation program and the performance metrics and tests used under the program. Our management and our asset management subsidiaries also engage McLagan from time to time to provide consulting services and market survey data. The decision to retain McLagan to provide services that do not relate to executive and director compensation is made by management of the company or a subsidiary, as applicable. Prior to the consultant change, the Compensation Committee received an annual report detailing the fees paid to, and services provided by, McLagan for engagements on behalf of management or Legg Mason subsidiaries, and concluded that the provision of those services did not prevent McLagan from providing objective independent counsel to the Committee. McLagan received $117,610 in fees during fiscal year 2011 for services related to executive and director compensation provided on behalf of the Compensation Committee. In addition to fees received for providing market survey data, McLagan and its affiliates received $525,215 in aggregate fees during fiscal year 2011 for services that do not relate to executive or director compensation, of which $455,591 constituted fees paid to a McLagan affiliate for insurance brokerage and health and benefits consulting engagements.

Board Leadership Structure

The Board is responsible for determining its leadership structure, which currently consists of a Chairman, a Lead Independent Director and a Chairman leading each Board committee. Currently, the Chairman of the Board, Mark R. Fetting, also serves as Legg Mason s Chief Executive Officer. The Board believes that the company and its stockholders are best served by maintaining the flexibility to have any person serve as Chairman of the Board based on what is in the best interests of the company and its stockholders at a given point in time, and therefore the Board does not support placing restrictions on who may serve as Chairman. When the Board elects a non-independent director as Chairman, it considers, among other things, the composition of the Board, the role of the Lead Independent Director, Legg Mason s strong corporate governance practices and any challenges specific to the company. The Board has concluded that having one individual serve as Chairman and Chief Executive Officer is the most effective leadership structure for Legg Mason at this time because that individual is an effective chairman and is able to provide a good link between the Board and management, while the current Lead Independent Director provides strong independent leadership for the independent directors on the Board.

In order to ensure independent leadership on the Board, our Corporate Governance Principles establish a Lead Independent Director position whenever the Chairman is not an independent director. The Corporate Governance Principles also set out clearly defined leadership authority and responsibilities for the Lead Independent Director, who is elected by a vote of independent directors. W. Allen Reed currently serves as Lead Independent Director. Mr. Reed s duties as Lead Independent Director include working independently to approve agendas and schedules for Board meetings to ensure there is sufficient time to address all agenda items, approving information sent to Board members, if appropriate, acting as a liaison between the Chairman and the independent directors and serving as the chair for executive sessions of independent directors.

In order to further enhance the independence of the Board from management, the Board believes that a substantial majority of the Board should consist of independent directors. Our Corporate Governance Principles provide that at least three-quarters of the Board members should qualify as independent directors at any time. All of our current directors except for Mr. Fetting are independent, as determined in accordance with New York Stock Exchange Listing Standards.

Compensation of Directors

The Compensation Committee annually reviews and recommends to our Board of Directors the compensation of our non-employee directors. As part of this review, the Committee consults with its compensation consultant to determine the reasonableness and adequacy of our non-employee director compensation. In April 2011, the Compensation Committee recommended, and our Board of Directors approved, changes to our non-employee director compensation for fiscal year 2012 primarily to better match director compensation practices at competitor companies. The following table outlines the cash compensation that was paid to our non-employee directors in fiscal year 2011 and the cash compensation that will be paid to our non-employee directors in fiscal year 2012.

Compensation Element	**Fiscal Year 2011 Compensation**	**Fiscal Year 2012 Compensation**
Cash Retainers		
Annual Board Retainer	$40,000	$50,000
Audit Committee Chairman Retainer	$15,000	$17,500
Nominating, Compensation, Finance and Risk Committee Chairmen Retainers	$7,500*	$10,000
Lead Independent Director Retainer	$20,000	$25,000
Meeting Fees		
Board Meeting Fees	$2,000 per in-person meeting attended and $1,000 per telephonic meeting attended beginning with the sixth meeting in the year	$2,000 per in-person meeting attended and $1,000 per telephonic meeting attended beginning with the sixth meeting in the year
Committee Meeting Fees	$2,000 per in-person meeting attended and $1,000 per telephonic meeting attended	$2,000 per in-person meeting attended and $1,000 per telephonic meeting attended

* As the Finance Committee was established in April 2011, no fees were paid for service on that committee in fiscal year 2011.

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In addition to cash compensation, under the terms of the Legg Mason, Inc. Non-Employee Director Equity Plan, as amended (the Director Equity Plan), each of our non-employee directors receives, on the 3rd day after he or she is first elected as a director, and on the date of each subsequent Annual Meeting of Stockholders, his or her choice of:

- a grant of shares of common stock that have a market value, on the grant date, of $125,000;

- a grant of shares of common stock that have a market value, on the grant date, of $75,000, plus $50,000 in cash; or

- a grant of a number of Restricted Stock Units equal to the number of shares that would be granted under the first bullet above.

Restricted Stock Units granted under the Director Equity Plan are payable on a one-for-one basis in shares of common stock within 60 days of the date on which the recipient stops serving as a director of Legg Mason. The number of Restricted Stock Units credited to a director will be increased to reflect all dividends paid on common stock based on the market price of a share of common stock on the dividend payment date. The Restricted Stock Units and shares of common stock are not subject to vesting. The Director Equity Plan covers an aggregate of 625,000 shares of common stock.

Director Compensation Table

The following table provides information about the compensation earned by our non-employee directors during fiscal year 2011.

Name	Fees Earned or Paid in Cash($)(1)	Stock Awards($)	All Other Compensation($)(2)	Total($)
Harold L. Adams	$ 123,500(3)	$ 74,985(4)	$	$ 198,485
Robert E. Angelica	105,000(3)	74,985(4)		179,985
Dennis R. Beresford	74,000	125,005(5)	2,512	201,517
John T. Cahill	67,000	125,005(5)		192,005
Barry W. Huff	116,500(3)	74,985(4)		191,485
John E. Koerner III	56,000	125,005(5)	2,067	183,072
Cheryl Gordon Krongard	65,000	125,005(5)		190,005
Scott C. Nuttall	61,000	125,005(5)		186,005
Nelson Peltz	52,000	125,005(5)		177,005
W. Allen Reed	77,500	125,005(5)		202,505
Margaret Milner Richardson	58,000	125,005(5)	1,289	184,294
Nicholas J. St. George	115,000(3)	74,985(4)	2,089	192,074
Roger W. Schipke(6)	17,000		556	17,556
Kurt L. Schmoke	65,000	125,005(5)	1,425	191,430

(1) In addition, non-employee directors receive reimbursement of actual expenses incurred for attendance at meetings.

(2) Represents dividend equivalents paid on Restricted Stock Units and reinvested in additional Restricted Stock Units.

(3) Includes $50,000 paid as a portion of the annual award under the Director Equity Plan.

(4) Represents value of 2,535 shares of common stock granted on July 27, 2010.

(5) Represents value of 4,226 Restricted Stock Units or shares of common stock granted on July 27, 2010.

(6) Mr. Schipke s term as a director expired on July 27, 2010. Mr. Schipke s reported compensation reflects amounts received during fiscal year 2011 through the end of his term and includes a cash payment for fractional shares in a distribution of Restricted Stock Units after his term ended.

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As of March 31, 2011, our non-employee directors held the following unexercised stock options and Restricted Stock Units:

Name	Unexercised Stock Options(#)	Restricted Stock Units(#)
Harold L. Adams	38,827	
Robert E. Angelica		
Dennis R. Beresford	22,500	16,568
John T. Cahill		
Barry W. Huff		
John E. Koerner III	38,827	13,940
Cheryl Gordon Krongard	6,744	
Scott C. Nuttall		
Nelson Peltz		
W. Allen Reed		
Margaret Milner Richardson	20,827	9,347
Nicholas J. St. George	31,500	12,330
Roger W. Schipke		
Kurt L. Schmoke	38,827	10,151

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CORPORATE GOVERNANCE

Corporate Governance Principles

Upon the recommendation of the Nominating & Corporate Governance Committee, our Board of Directors has adopted Corporate Governance Principles for our company. These Corporate Governance Principles address, among other things, the following key corporate governance topics: director qualification standards; director responsibilities; director access to management and, as necessary and appropriate, independent advisors; director compensation; director orientation and continuing education; management succession; and an annual performance evaluation of the Board of Directors. A copy of these Corporate Governance Principles is available on our corporate website at *www.leggmason.com* under the *About Us Corporate Governance* section. We will provide a copy of the Corporate Governance Principles, without charge, to any stockholder who provides a written request for a copy. Requests for copies should be addressed to the Corporate Secretary, Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202.

Code of Conduct

Upon the recommendation of the Nominating & Corporate Governance Committee, our Board of Directors has adopted a corporate Code of Conduct that applies to all directors, officers and employees of Legg Mason and its subsidiaries. A copy of the Code of Conduct is available on our corporate website at *www.leggmason.com* under the *About Us Corporate Governance* section. We intend to satisfy any disclosure requirement regarding any amendment to, or waiver of, our Code of Conduct by posting the information on our corporate website. We will provide a copy of the Code of Conduct, without charge, to any stockholder who provides a written request for a copy. Requests for copies should be addressed to the Corporate Secretary, Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202.

Independent Directors

The Board of Directors has made determinations as to the independence of each of our non-employee directors and concluded that Mses. Krongard and Richardson and Messrs. Adams, Angelica, Beresford, Cahill, Huff, Koerner, Nuttall, Peltz, Reed, St. George, and Schmoke qualify as independent directors under the standards promulgated by the New York Stock Exchange (NYSE). In reaching these conclusions, the Board applied our Policy Regarding Director Independence Determinations as adopted by the Board, which specifies types of relationships that are deemed not material and, therefore, not considered each year. A copy of the Policy Regarding Director Independence Determinations is available on our corporate website at *www.leggmason.com* under the *About Us Corporate Governance* section.

In determining Mr. Huff s independence, the Board reviewed his fiscal year 2009 relationship as a former partner of a public accounting firm to which we, and certain funds managed by our subsidiaries, made payments in the ordinary course of business during that year for providing consulting, tax and compliance services to us, and audit services to the funds. Mr. Huff was not personally involved in any of the services provided to us or the funds. In determining Mr. Nuttall s independence, the Board reviewed his relationship as a member of KKR & Co., an affiliate of a creditor of the company, Mr. Nuttall s active involvement in funds affiliated with KKR & Co. that have a business relationship with Legg Mason and that Mr. Nuttall is an executive officer of an affiliate of KKR & Co. that is a broker-dealer that may provide certain financial services to us from time to time. In determining Mr. Peltz s independence, the Board reviewed his relationship as the Chief Executive Officer and a founding partner of Trian, an asset management company that, as of May 24, 2011, owns 11,257,370 shares of Legg Mason common stock (7.57% of outstanding shares) and that from time to time, in the ordinary course of their businesses, subsidiaries of Legg Mason may invest client assets in companies of which Mr. Peltz or his affiliates may be directors or significant stockholders.

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Director Nomination Process

The Nominating & Corporate Committee will consider all qualified candidates for seats on our Board of Directors identified by members of the Committee, by other members of the Board of Directors, by our management and by our stockholders.

The Board of Directors has set minimum qualification requirements for director nominees in our Corporate Governance Principles. Director nominees are required to possess a broad range of skills, expertise, industry or other knowledge and business or other experience that will be useful to the company. The Nominating & Corporate Governance Committee will review each candidate s biographical information and determine whether the candidate meets these minimum qualification requirements.

After the Nominating & Corporate Governance Committee has determined that a candidate meets the minimum qualification requirements, the Committee will determine whether to nominate the candidate to our Board of Directors. In making this determination, the Nominating & Corporate Governance Committee will consider a number of factors, including:

- the current size of the Board of Directors, and whether vacancies on the Board are anticipated;
- the candidate s judgment, character, expertise, skill, knowledge, experience and collegiality;
- the overall diversity of perspectives, backgrounds and experiences of the current directors;
- whether the candidate has special skills, expertise or a background that add to and complement the range of skills, expertise and background of the existing directors; and
- whether the candidate will be able to devote sufficient time and energy to the performance of his or her duties as a director.

Application of these factors involves the exercise of judgment and cannot be measured in any mathematical or formulaic way.

The Board of Directors seeks diversity of perspectives, backgrounds and experiences among its members. When considering prospects for possible recommendation to the Board, increasing diversity of backgrounds and experiences is a factor considered by the Nominating & Corporate Governance Committee. The Nominating & Corporate Governance Committee reviews available information regarding each potential candidate, including character, experience, qualifications, attributes, skills, gender, race and ethnicity.

Our Amended and Restated Bylaws provide written procedures by which stockholders may recommend nominees to our Board of Directors. The Nominating & Corporate Governance Committee will consider nominees recommended by our stockholders under the same procedure used for considering nominees recommended by other directors or management. The Nominating & Corporate Governance Committee will consider nominee recommendations from stockholders for the next annual meeting of stockholders if it receives the recommendation no later than the 120th day prior to the first anniversary of the mailing date of our prior year s proxy statement or Notice of Internet Availability of Proxy Materials (*i.e.*, by February 16, 2012 for a recommendation in 2012). Stockholders who would like to propose a director candidate for election to our Board of Directors at an annual meeting of stockholders must send written notice to our Corporate Secretary between the 150th day and 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the mailing date of our prior year s proxy statement (*i.e.*, between January 17, 2012 and February 16, 2012 for nomination in 2012). If we advance or delay our annual meeting by more than 30 days from the first anniversary of the preceding year s annual meeting, notice must be delivered between the 150th day prior to the date of the annual meeting and 5:00 p.m., Eastern Time, on the later of the 120th day before the meeting or the tenth day following the day on which we publicly announce the date of the meeting. Notice from a stockholder nominating a director must include the following:

- the name, age, business address and residence address of the recommending stockholder;

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- the class, series and number of all shares of stock of Legg Mason that the recommending stockholder beneficially owns;

- the date the shares were acquired and the investment intent behind the acquisition; and

- all other information about the candidate that is required to be disclosed in solicitations of proxies for election of directors in an election contest or is otherwise required pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (including the nominee s written consent to being named in the proxy as a nominee and to serve as a director if elected).

We may require that a proposed director nominee furnish other information to enable the Nominating & Corporate Governance Committee to determine the nominee s eligibility to serve. The Nominating & Corporate Governance Committee will consider a nomination as it deems appropriate in its discretion. However, a nomination that does not comply with the requirements discussed above may not be considered. Any nominations should be addressed to the Corporate Secretary, Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202.

Policies and Procedures Regarding Related Party Transactions

Under our written policies and procedures regarding related party transactions, the Nominating & Corporate Governance Committee must approve all related party transactions between us or one of our subsidiaries and a director, executive officer or immediate family member of a director or executive officer that would be required to be disclosed in our proxy statements. The policy also authorizes the Chairman of the committee to approve, or reject, proposed related party transactions subject to ratification by the full committee at its next regularly scheduled meeting.

Stock Policies

Our Board of Directors has adopted stock ownership guidelines for directors and executive officers. Under the guidelines, non-employee directors are expected to own shares of Legg Mason common stock with a value at least equal to five times the annual cash retainer paid for serving on the Board. Executive officers are expected to own shares of common stock, including restricted stock and shares of phantom stock, with a value at least equal to five times the officer s base salary, in the case of our Chief Executive Officer, three times base salary, in the case of Senior Executive Vice Presidents and two times base salary for other executive officers. Directors and executive officers are permitted a five year grace period to transition into compliance with the guidelines beginning on the later of (i) the date the guidelines were adopted (April 2008) and (ii) the date the individual becomes a director or executive officer. Currently, all of our directors and executive officers are in compliance with the guidelines in accordance with the phase-in schedule described above. In addition, our Board of Directors has adopted a policy regarding acquisitions and dispositions of Legg Mason securities that, among other things, prohibits directors or executive officers from trading in listed and over the counter options and derivatives that relate specifically to securities issued by Legg Mason.

Executive Sessions

Executive sessions of our non-management directors are held in conjunction with each regular Board of Directors meeting and may be held at other times as circumstances warrant. Our Lead Independent Director, who is elected annually by our independent directors, chairs these executive sessions. W. Allen Reed currently serves as the Lead Independent Director.

Communications

All interested parties who wish to communicate with our Board of Directors, the Lead Independent Director or our non-management directors as a group may do so by addressing their written correspondence to the director or directors, c/o Corporate Secretary, Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202.

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Our Corporate Secretary will forward all correspondence received from stockholders or other interested parties to the director or directors to whom it is addressed.

The Audit Committee has developed procedures for receiving and handling complaints or concerns about our financial statements, internal controls or other financial or accounting matters. Any such complaints or concerns should be sent by mail to the Chairman of the Audit Committee, c/o Legg Mason, Inc., 100 International Drive, Baltimore, Maryland 21202.

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the ownership of Legg Mason common stock as of May 24, 2011 by each of our directors, each individual named in the Summary Compensation Table, all of our executive officers and directors as a group, and each person who, to the best of our knowledge, beneficially owned more than five percent of the outstanding common stock.

NAME OF OWNER	COMMON STOCK BENEFICIALLY OWNED(1)(2)	PERCENT OF OUTSTANDING COMMON STOCK(2)
Trian Fund Management, L.P.	11,257,370(3)	7.57%
Nelson Peltz	11,257,370(3)	7.57%
Dodge & Cox	10,105,868(4)	6.80%
Invesco Ltd.	9,207,265(5)	6.19%
T. Rowe Price Associates, Inc.	9,178,092(6)	6.17%
Mark R. Fetting	509,439(7)	*
Joseph A. Sullivan	313,195(7)(8)	*
David R. Odenath	209,229(9)	*
Ronald R. Dewhurst	178,035(7)	*
Harold L. Adams	89,650	*
Nicholas J. St. George	86,385(10)	*
Charles J. Daley, Jr.	75,485(9)	*
Jeffrey A. Nattans	74,597(7)	*
John E. Koerner III	74,281(10)	*
Kurt L. Schmoke	52,619(10)	*
Dennis R. Beresford	41,345(10)	*
Margaret Milner Richardson	32,925(10)	*
Cheryl Gordon Krongard	20,395	*
Terrence J. Murphy	19,638(7)(9)	*
W. Allen Reed	16,217	*
Scott C. Nuttall	14,213	*
John T. Cahill	13,498(11)	*
Peter H. Nachtwey	11,110(7)	*
Robert E. Angelica	8,978	*
Barry W. Huff	8,518	*
All current executive officers and directors as a group (19 persons)	12,905,449	8.64%

* Less than 1%.

(1) Except as otherwise indicated and except for shares held by members of an individual s family or in trust, all shares are held with sole dispositive and voting power.

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(2) Includes, for the individuals listed below, the following number of shares subject to options exercisable within 60 days from May 24, 2011:

Option Holder	Number of Shares
Mark R. Fetting	306,156
Joseph A. Sullivan	63,418
Ronald R. Dewhurst	41,040
Harold L. Adams	38,827
Nicholas J. St. George	31,500
Jeffrey A. Nattans	24,385
John E. Koerner III	38,827
Kurt L. Schmoke	38,827
Dennis R. Beresford	22,500
Margaret Milner Richardson	20,827
Cheryl Gordon Krongard	6,744
Terrence J. Murphy	11,800
All current executive officers and directors as a group (19 persons)	696,067

(3) Represents shares beneficially owned by both Trian Fund Management, L.P., 280 Park Avenue, 41st Floor, New York, NY 10017, in its capacity as the management company for certain funds and investment vehicles managed by it, and Nelson Peltz. Trian Fund Management GP, LLC, which is controlled by Nelson Peltz, Peter W. May and Edward P. Garden, is the general partner of Trian. All of the shares are held with shared dispositive power and voting power by Trian, Mr. Peltz, Mr. May and Mr. Garden.

(4) Represents shares held by Dodge & Cox, 555 California Street, 40th Floor, San Francisco, CA 94104 in its capacity as investment advisor. All of the shares are held with sole dispositive power and none of the shares are held with shared dispositive power. 9,578,518 of the shares are held with sole voting power and none are held with shared voting power. The number of shares in the preceding information is based upon a Schedule 13G report filed by Dodge & Cox reporting ownership as of December 31, 2010. The percentages are based on the total number of outstanding shares of common stock as of May 24, 2011.

(5) Represents shares held by Invesco Ltd., 1555 Peachtree Street NE, Atlanta, GA 30309, in its capacity as investment advisor. All of the shares are held with sole dispositive power and none of the shares are held with shared dispositive power. 9,199,565 of the shares are held with sole voting power and none are held with shared voting power. The number of shares in the preceding information is based upon a Schedule 13G report filed by Invesco Ltd., reporting ownership of December 31, 2010. The percentages are based on Legg Mason s outstanding shares as of May 24, 2011.

(6) Represents shares held by T. Rowe Price Associates, Inc., 100 E. Pratt Street, Baltimore, Maryland 21202, in its capacity as investment advisor. All of the shares are held with sole dispositive power and none of the shares are held with shared dispositive power. 2,552,832 of the shares are held with sole voting power and none are held with shared voting power. The number of shares in the preceding information is based upon a Schedule 13G report filed by T. Rowe Price Associates, Inc. reporting ownership of December 31, 2010. The percentages are based on Legg Mason s outstanding shares as of May 24, 2011.

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(7) Includes, for the individuals listed below, the following number of shares of restricted stock. Shares of restricted stock are not held with voting rights and cannot be transferred.

Name	Number of Shares of Restricted Stock
Mark R. Fetting	98,966
Joseph A. Sullivan	65,330
Ronald R. Dewhurst	99,409
Jeffrey A. Nattans	27,991
Terrence J. Murphy	7,981
Peter H. Nachtwey	11,110

(8) Does not include 2,771 units of the Legg Mason Common Stock Fund held in the Legg Mason Profit Sharing and 401(k) Plan and Trust which translate into 1,515 shares of common stock. Includes 1,460 shares of common stock held by Mr. Sullivan s children.

(9) Reported beneficial ownership of common stock is as of the day the executive ceased to serve as an officer of Legg Mason and be subject to the reporting requirements under securities laws, for Mr. Odenath, December 17, 2010, for Mr. Daley, July 1, 2010 and for Mr. Murphy, January 10, 2011.

(10) Includes, for the individuals listed below, the following number of Restricted Stock Units. Restricted Stock Units are payable on a one-for-one basis in shares of common stock within 60 days of the date on which the individual stops serving as a director of Legg Mason.

Name	Number of Restricted Stock Units
Nicholas J. St. George	12,350
John E. Koerner III	13,963
Kurt L. Schmoke	10,167
Dennis R. Beresford	16,595
Margaret Milner Richardson	9,362

(11) Includes 13,498 shares of common stock that are held in trust.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

Overview of Fiscal Year 2011 Performance

During fiscal year 2011, under the leadership of our senior management team, Legg Mason continued its recovery from the market downturn and other issues experienced in fiscal years 2008 and 2009.

- Our financial performance improved as compared to the prior year, as shown by a 24% increase in our net income (23% in diluted earnings per share), a 15% increase in adjusted income (16% in adjusted income per diluted share) and our adjusted operating margins improving by 250 basis points.

- Our assets under management were relatively flat (a 1% decrease to $677.6 billion), but the mix in our assets became more balanced during the fiscal year, with equity assets increasing to 28% of our total assets under management and additional assets coming into more value-added products, resulting in an increased average revenue yield.

- Our investment performance, which is typically a leading indicator of success in the asset management business, improved overall during the fiscal year, as measured by the percentage of marketed composite assets under management that outperformed their indexes.

- We continued to execute on our strategic priorities, including implementation of our ongoing business model streamlining initiative, as discussed in more detail below.

- Our stock price increased from $28.50 on March 31, 2010 to $36.09 one year later, and our 26.6% total stockholder return ranked second in a group of 9 public asset management companies.

Overview of Executive Compensation

Our named executive officer compensation programs are designed to attract, retain and reward the management talent that we need to maintain and strengthen our position in the asset management business and to achieve our business objectives. Our compensation programs for named executive officers are guided by three basic principles: link compensation to performance; provide competitive compensation levels to attract, retain and reward executives; and align management s interests with those of stockholders.

Our named executive officer compensation is primarily based on incentive compensation, typically paid in a combination of cash bonuses and option and restricted stock awards, which vest over time. Base salaries, the only component of overall compensation that is not variable, constitute a relatively small portion of the compensation of our named executive officers. Incentive compensation awards are made after a fiscal year end and are primarily based upon our corporate performance and the individual performance of our named executive officers. Our equity incentive awards are designed to tie a significant portion of incentive compensation directly to the long-term performance of our company, as measured by our stock price. Our equity incentive awards made for fiscal year 2011 provide for double-trigger vesting upon a change of control, requiring a termination of employment without cause or for good reason for accelerated vesting following a change of control. We have no commitments to provide our named executive officers with any supplemental executive pension or other similar post-retirement benefits, we offer limited perquisites to our named executive officers, primarily related to relocation benefits where the relocation is in the interests of the company, and we provide no change of control excise tax gross-ups to our executives. In addition, we have no employment agreements or, after the payment of fiscal year 2011 incentive compensation to Mr. Nachtwey under the terms of a letter agreement signed when he was hired, other agreements that provide for post-employment payments or benefits to our named executive officers. We also have adopted a policy for recoupment of incentive compensation from named executive officers in the event a named executive officer s acts or omissions contribute to a need for a material restatement of our financial results or if a named executive officer is terminated with cause.

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Pay for Performance

As discussed in more detail below, linking pay to performance is a fundamental value underlying our named executive officer compensation practices. For fiscal year 2011, our Chief Executive Officer received 37% higher total compensation than he received for fiscal year 2010. Our three other continuing named executive officers, who were employed by the company in the prior year, received increases in total compensation ranging from 3% to 25%. We believe that these increases in incentive compensation are justified by, and in line with, our improved results during the fiscal year and are supported by comparisons of our compensation to that of our competitors and by the fact that fiscal year 2011 follows a two-year period of reductions or relatively limited increases in executive compensation. Since the majority of our named executive officer compensation is variable in nature and determined at the end of the fiscal year, the compensation decisions were driven by our improved performance and results. Our improved results are summarized above, and include a 24% increase in net income and a 26.6% total stockholder return.

We also believe that our executive compensation amounts for fiscal year 2011 appropriately reflect our corporate performance. The total compensation for our Chief Executive Officer ranked in the bottom quartile when compared to the total compensation paid to chief executive officers at the asset management competitors in the 15 company competitor group the Committee uses for compensation comparisons. Similarly, the total compensation paid to three of our four other continuing named executive officers was below the median (in the bottom quartile for one and in the second quartile for two), and for the fourth was in the third quartile, when compared to compensation paid to executives with similar responsibilities at the competitor companies. We believe that this level of compensation as compared to peers is appropriate and reflective of both improved performance and also the fact that Legg Mason is still recovering from the financial downturn and other issues in fiscal years 2008 and 2009. While our financial results have improved over the last two fiscal years, they are not yet at pre-financial crisis levels or the levels we are striving to achieve.

Overview of Executive Compensation Programs

The compensation programs for our executive officers, including those named in the compensation tables of our proxy statements (we refer to these individuals as the named executive officers), are designed to attract, retain and reward the management talent we need to maintain and strengthen our position in the asset management business and to achieve our business objectives. Many of our business objectives tend to require significant lead time to accomplish, increasing our need for a stable and talented management team. The intense competition for talented personnel within our industry impacts the design and implementation of all of our compensation programs, particularly those for executive officers.

Compensation Philosophy and Principles

In designing and implementing our compensation programs for named executive officers, we are guided by three basic principles.

Link Compensation to Performance

We believe that compensation levels should reflect performance both the performance of Legg Mason and the performance of the recipient. As a result, we emphasize incentive compensation that is variable in nature, the amount of which is determined after the end of each fiscal year based on performance factors. For example, for fiscal year 2011, our Chief Executive Officer received 91% of his total compensation in the form of variable incentive awards, and our other continuing named executive officers received from 81% to 91% of their total compensation in similar variable awards.

Maintain Competitive Compensation Levels

We strive to offer programs and levels of compensation that are competitive with those offered by comparable companies in our industry in order to attract, retain and reward our executive officers. To support this principle, the Compensation Committee of our Board of Directors (the Committee) annually reviews

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independently gathered compensation survey data to assess the competitiveness of our compensation programs for named executive officers. The Committee uses this data as an important input to the process of determining the appropriate levels of compensation for our executive officers.

Support Retention and Align Interests with Stockholders

In designing and implementing our compensation programs for named executive officers, we seek to implement programs that will encourage them to remain with us and to increase long-term stockholder value. Providing competitive compensation is one way to promote this principle. Another way is through granting long-term equity incentive awards each year. For fiscal year 2011, our Chief Executive Officer received 37% of his total compensation in the form of long-term equity incentive awards, and our other continuing named executive officers received at least one-third of their compensation in long-term equity incentive awards. Each long-term equity incentive award vests over a four-year period and, subject to a few exceptions, is forfeited if the recipient terminates his or her employment prior to vesting. Since the recipient will forfeit unvested equity awards if he or she terminates employment, the costs to the employee of doing so are increased, thus creating an incentive to stay. In addition, the long-term equity incentive awards increase in value as our stock price increases and provide the named executive officer with an opportunity to build up a significant investment in Legg Mason common stock.

Components of Compensation Program

Compensation Element	Objectives	Key Features
Base Salary	Provide a stable, reliable monthly income Set at levels that should comprise a low percentage of total compensation	Adjustments are considered annually based upon factors including responsibilities, performance and experience of the executive officer; base salaries of comparable officers at peer asset management firms; and the recommendations of our Chief Executive Officer (for all named executive officers other than the Chief Executive Officer) and the Committee s independent consultants In many years, salaries are not adjusted when they are in line with competitive levels For example, the Committee has not increased fiscal year 2012 salaries for the continuing named executive officers
Annual Incentive Compensation	Reward the achievement of annual financial and other performance goals Link compensation to performance since award amounts are determined after fiscal year based on actual results	Primarily based on our corporate performance and the responsibilities, individual performance and contributions of the recipient for the fiscal year While no targeted ratios, typically constitutes the largest portion of annual compensation Paid in the form of cash bonuses and long-term equity incentive awards discussed below

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Compensation Element	Objectives	Key Features
		Ratio of cash bonuses to long-term equity incentive awards varies among executives and from year-to-year based on factors including market practices
Long-Term Equity Incentive Awards (Stock Options and Restricted Stock)	Align executive interests with those of stockholders as value of awards increases or decreases with stock price Retain executive officers through multi-year vesting Provide for significant stock ownership to align interests with stockholders	Paid in stock options or restricted stock issued under stockholder-approved 1996 Equity Incentive Plan Awards typically vest over 4-year period With a few exceptions, unvested awards are forfeited if employment terminates Vesting is accelerated upon a termination of employment without cause or for good reason following a change of control (*i.e.*, a double-trigger)
Other Compensation	Allow executive officers to participate in other compensation plans Provide opportunity for deferring income taxes on a portion of annual income	U.S.-based named executive officers may participate in all other Legg Mason compensation and benefit programs on the same terms as other employees Other programs include Profit Sharing and 401(k) Plan and Employee Stock Purchase Plan U.S.-based executive officers are eligible to participate in Phantom Stock Plan, a non-qualified deferred compensation plan available to select employees based on responsibilities and compensation levels

Incentive Compensation Program

The Committee grants most incentive compensation awards under our Executive Incentive Compensation Plan. This plan provides for an aggregate executive bonus pool in an amount up to 10% of our pre-tax income (before the bonuses are deducted) (the Executive Pool). Because the Executive Pool amount is based on pre-tax income, the total size of the pool varies with our financial performance. During the first quarter of each fiscal year, the Committee selects plan participants and allocates each one a maximum percentage of the total Executive Pool. Each participant s actual incentive award under the plan may not exceed the maximum percentage previously allocated to him or her, and has historically been well below the maximum, except in extraordinary circumstances. In establishing maximum percentages of the Executive Pool for each participant, the Committee considers the executive s previous incentive awards, level of responsibility, and the Committee s judgment as to the incentive award the executive is likely to receive for that fiscal year given certain performance expectations.

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After the end of each fiscal year, the Committee approves actual incentive awards from the Executive Pool to each participating executive, which are paid in the form of cash bonuses and equity awards that are discussed above.

The Committee has established a sub-program under the plan to determine actual executive compensation awards through the use of the Committee s discretion to reduce the maximum allocations of the Executive Pool established at the beginning of the fiscal year. Early in each fiscal year, the Committee determines the program participants and establishes an initial bonus pool for the program participants. The initial bonus pool is established by the Committee primarily after considering industry survey data regarding market compensation levels for people holding similar positions at other asset management companies. The Committee also considers recommendations from the Chief Executive Officer and advice from its compensation consultant.

At the end of each fiscal year, the Committee considers company performance utilizing metrics that it establishes early in the year to increase or decrease the initial bonus pool. The Committee determines the relative weighting of the selected metrics at the end of the fiscal year to take into account market conditions and other relevant factors that occur during the year. Once the final pool amount is established, the Committee considers the individual performance and responsibilities of the program participants and market data for similarly placed officers at competitor asset management companies to allocate the bonus pool among individual participants. The actual incentive award paid to a named executive officer under the program may not exceed the amount determined based on the percentage of the Executive Pool allocated to that individual under the Executive Incentive Compensation Plan. The Committee is under no obligation to award the entire incentive pool under the program, and, in part due to the fact that Legg Mason continues to recover from the market turmoil of fiscal years 2008 and 2009, the Committee has awarded less than the entire pool under the program for the last two fiscal years.

The Committee will occasionally award discretionary incentive awards to named executive officers that are not made under our Executive Incentive Compensation Plan discussed above. The Committee awards these bonuses when the recipient was not named as a participant in the plan at the beginning of the fiscal year or when the Committee determines that the recipient should receive an incentive award larger than the amount available to the executive under the plan. The awards made to Mr. Nachtwey, who joined Legg Mason during the year and thus was not named as a participant in the plan, and to individuals who were not serving as executives at the end of the fiscal year, were the only discretionary, non-plan awards made to our named executive officers for fiscal year 2011.

Implementation of Named Executive Officer Compensation Programs

Role of Compensation Committee and Non-Employee Directors

The Committee is responsible for overseeing and implementing our named executive officer compensation programs. The Committee s role includes:

- determining the short- and long-term incentive compensation of our Chief Executive Officer;
- establishing and approving compensation plans for named executive officers based on the recommendations of the Chief Executive Officer and the Committee s compensation consultants;
- annually reviewing and, where appropriate, adjusting the base salaries of our named executive officers; and
- approving the short- and long-term incentive compensation of named executive officers.

Our independent directors must ratify the Committee s determinations regarding Chief Executive Officer compensation.

In implementing its role in the compensation program, the Committee uses information from a number of sources. The information utilized by the Committee includes advice from its consultant, data regarding the compensation practices of other asset managers that is discussed in more detail below, tally sheets showing prior

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compensation awards to, and outstanding equity holdings of, named executive officers, comparisons of the equity holdings of our named executive officers with those of comparable officers at competitor companies and analyses of the current and projected outstanding equity holdings of our named executive officers.

Role of Management

Our management, under the leadership of our Chief Executive Officer, plays an important role in establishing and maintaining our named executive officer compensation programs. Management s role includes recommending plans and programs to the Committee, implementing the Committee s decisions regarding the plans and programs and assisting and administering plans in support of the Committee. Our Chief Executive Officer also provides information on the individual performance of the other named executive officers and makes annual recommendations to the Committee on compensation levels for all other named executive officers.

Role of Compensation Consultant

The Committee s charter gives it the authority to retain and approve fees and other terms of engagement for compensation consultants and other advisors to assist it in performing its duties. In October 2010, the Committee retained Towers Watson as its new independent compensation consultant. Towers Watson was identified in a search the Committee conducted in the interest of rotating to a new consultant who does not provide other services to the company or its management. Towers Watson reports directly to the Committee, which annually reviews performance and all fees paid to Towers Watson.

The Committee has instructed Towers Watson to provide it with advice and guidance on compensation proposals, including proposed compensation amounts, the design of incentive plans, the setting of performance goals, and the design of other forms of compensation and benefits programs, as well as relevant information about market practices and trends. Typically, Towers Watson attends Committee meetings, reviews existing compensation programs to ensure consistency with our compensation philosophy and current market practices and reviews the comparative information derived from peer group and published survey data that the Committee uses when setting compensation.

Prior to October 2010, the Committee engaged McLagan, a compensation consulting firm, to provide advice relating to executive compensation issues. In fiscal year 2011, McLagan provided advice related to base salaries, the initial bonus pool under the executive compensation program and the performance metrics and tests under the program.

Benchmarking and Market Data

Towers Watson also assists the Committee by reviewing comparative market data on compensation practices and programs based on an analysis of competitors provided in a compensation survey conducted by another firm and provides guidance on best practices and regulatory developments. The Committee and Towers Watson use a group of relevant public and private competitor firms in comparing compensation programs. The companies in the group are AllianceBernstein, Allianz Global Investors, BlackRock Financial Management, Deutsche Asset Management, Fidelity Investments, Franklin Templeton Investments, Goldman Sachs Asset Management, Invesco Ltd., JP Morgan Asset Management, MFS Investment Management, Morgan Stanley Investment Management, Natixis Global Asset Management, Old Mutual Asset Management, PIMCO Advisors, and T. Rowe Price Associates. The Committee and Towers Watson use this group of relevant competitors to (i) compare our compensation programs and practices with those of our competitors and (ii) compare the compensation levels of our named executive officers to the compensation levels of comparable officers of companies in the group. Because our March 31 fiscal year-end date is later than that of many competitors, we are able to review up-to-date information about market practices and compensation awards for the completed calendar year.

Tax Deductibility of Annual Compensation

Section 162(m) of the Internal Revenue Code limits tax deductions for certain annual compensation in excess of $1,000,000 paid to certain individuals named in the summary compensation tables of public company

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proxy statements. Our Executive Incentive Compensation Plan is designed to qualify for a performance-based exception to this rule and permit the full deductibility of compensation awarded under the plan, including equity awards.

The Committee intends to continue to pursue compensation programs that are designed to be fully deductible. However, when circumstances warrant, the Committee retains the discretion to grant incentive awards to named executive officers that are not fully deductible under Section 162(m) as the Committee must balance the effectiveness of executive compensation plans with the materiality of reduced tax deductions. No non-deductible awards were made for fiscal year 2011.

Equity Grant Practices

We do not have any program, plan or practice to time equity awards to our employees in coordination with the release of material non-public information. We do not grant equity awards based on our stock price. If we are in possession of material non-public information, either favorable or unfavorable, when equity awards are made, the Committee will not take the information into consideration in determining award amounts. The Committee authorizes annual equity awards to executive officers at its regularly-scheduled meeting in April. Our practice is to determine the stock price for annual executive officer equity awards on the day that incentive awards are paid in May.

Compensation Decisions for Fiscal Year 2011

The following table shows the named executive officer base salary and incentive compensation for fiscal year 2011 that was awarded or approved by the Committee. **This table differs from the Summary Compensation Table below primarily in that it includes the grant date value of equity awards made for fiscal year 2011, which were awarded after the end of the fiscal year, rather than the grant date value of equity awards made during fiscal year 2011, which reflect fiscal year 2010 performance and which are included in the Summary Compensation Table. This table also omits former executive officers who were not serving in that capacity at the end of the fiscal year but are included in the Summary Compensation Table.**

Name	Base Salary	Cash Incentive Payment	Restricted Stock Award	Stock Option Award	Total Compensation
Mark R. Fetting	$ 500,000	$ 2,900,000	$ 1,400,000	$ 600,000	$ 5,400,000
Ronald R. Dewhurst	350,000(1)	2,000,000	1,400,000		3,750,000
Peter H. Nachtwey(2)	80,208	325,000	125,000	125,000	655,208
Jeffrey A. Nattans	345,833	900,000	420,000	180,000	1,845,833
Joseph A. Sullivan	350,000	2,000,000	840,000	360,000	3,550,000

(1) Mr. Dewhurst s U.S. $350,000 salary was paid in Australian dollars for the first eleven months of the fiscal year and in U.S. dollars for the final month. For the first eleven months, his salary was converted into Australian dollars at the exchange rate in effect on the day he joined Legg Mason. Using an average conversion rate of .9390 for the eleven months, plus his March salary, Mr. Dewhurst received U.S. $363,825 in base salary.

(2) Mr. Nachtwey joined Legg Mason in January 2011. In addition to his fiscal year 2011 salary and incentive award, Mr. Nachtwey received a sign-on retention award of $500,000 in cash, $250,000 in restricted stock and $250,000 in stock options.

Determination of Fiscal Year 2011 Bonus Pool

For fiscal year 2011, the Committee designated eight participants in its compensation program, Legg Mason s six executive officers serving at the beginning of the fiscal year and its General Counsel and Chief Risk Officer. The Committee also established the performance metrics to be used to increase or decrease the initial pool amount. The performance metrics are: adjusted operating income margin, net assets under management (AUM) flows as a percentage of AUM at the beginning of the fiscal year, investment performance and progress toward the company s strategic priorities. Adjusted operating income margin equals (i) operating

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income, as adjusted to remove the compensation effects of mark-to-market changes in deferred compensation assets and seed capital investments, closed-end fund launch costs, net lease charges, and transition-related expenses, divided by (ii) operating revenues less distribution and servicing expenses. In reviewing adjusted operating income margin and net flows, the Committee established benchmarks comparing the actual fiscal year 2011 results to the adjusted operating margin and net flows established in Legg Mason s annual plan, the median results for a group of comparable asset management companies for the fiscal year and Legg Mason s actual fiscal year 2010 results. In reviewing investment performance, the Committee established benchmarks comparing the percentages of Legg Mason s marketed investment composite assets for which investment performance exceeded their respective indices for the 1-year, 3-year and 5-year periods to an established target of 70% and to the comparable percentages at the end of the prior fiscal year. In reviewing progress against Legg Mason s strategic priorities, the Committee reviewed qualitative information about, and progress towards, Legg Mason s publicly disclosed strategic priorities, which are to:

- Implement the business model streamlining initiative;
- Effectively deploy capital;
- Engage with our asset management affiliates on growth and governance matters; and
- Pursue growth and lift-out and bolt-on acquisition opportunities to fill product and geographic gaps.

The asset managers in the group of comparable companies for fiscal year 2011 were Affiliated Managers Group, AllianceBernstein, BlackRock Financial Management, Federated Investors, Franklin Resources, Invesco Ltd., Janus Capital Group and T. Rowe Price Associates. This group of comparable companies differs from the group utilized by the Committee for other compensation purposes because this group consists only of publicly traded asset management companies about whom financial information is publicly reported. Because March quarter information for the competitor asset management companies was not available when the Committee established the final bonus pool amount under the program, in comparing our adjusted operating income margin and net flows with those of the competitor companies, the Committee used the adjusted operating income margins and net flows of the competitor companies for the twelve-months ended December 31, 2010.

In April 2011, the Committee established the bonus pool for fiscal year 2011 under the program by considering the metrics discussed above and maintaining the initial bonus pool. In considering the metrics, the Committee used its discretion to establish an overall score for each ranging from one to five, a score of one represents performance significantly below plan, three represents performance on plan and five represents performance significantly above plan. In establishing the scores, the Committee was mindful of the fact that a number of the goals used in the program, including matching median competitor group results in adjusted operating income margins and net flows, are expected to take multiple years to achieve and thus progress toward the goals is currently as important as reaching the goals. Specifically, the Committee determined the following regarding the financial metrics:

- Adjusted operating income margin was awarded an overall score of four, as the Committee emphasized comparing the margin of 24.3% with the shorter-term goals of exceeding the plan target (23.4%) and the prior year s result (22.2%) and gave less weight to comparisons to the peer group median (36.8%), which is a longer-term goal and will be difficult to achieve with the company s current portfolio mix and non-integrated affiliate business model.
- Net flows were awarded an overall score of one, as the Committee emphasized comparing the flows of negative 8.9% with the plan target (negative 2.3%, which would represent a strong recovery from the prior year s net outflows and be in line with industry expectations) and the competitor group median (negative 2.1%) and gave less consideration to the comparison with the prior year s result (negative 13%) because of the improving trend at the end of the prior fiscal year and the importance of improvement on this metric; and
- Investment performance was awarded an overall score of four based on strong performance, as shown by the percentage of marketed composite assets that beat their indexes exceeding the established goal

of 70% for each of the 1-, 3- and 5-year time periods. Marketed composite assets beating their indexes improved for the 3- and 5-year time periods to 78% and 74%, respectively, when compared to the prior year s results of 60% and 68%, respectively, while performance for the 1-year period declined slightly to 75% from 81%.

In reviewing strategic priorities, the Committee considered qualitative factors including the following to award an overall score of three:

Implementing the business model streamlining initiative savings targets remained unchanged during the fiscal year and solid progress was made towards asset manager affiliate end-state configurations;

Effectively deploying capital purchased and retired 14.6 million shares of common stock;

Engaging with our asset management affiliates on growth and governance matters actively worked with affiliates on new seed capital opportunities, growth plans, a review of global distribution and ongoing discussions regarding equity arrangements;

Pursuing growth, lift-out and bolt-on opportunities Americas Distribution long-term asset gross sales increased 7% from the prior fiscal year, International Distribution long-term asset gross sales exceeded their goal by 137% and exceeded prior fiscal year by 72%, and continued active ongoing dialogues regarding lift-outs and bolt-on acquisitions.

With the long-term nature of many of the goals in mind, and noting also that Legg Mason is continuing its recovery from the market downturn and other financial issues that occurred during fiscal years 2008 and 2009, the Committee established final weightings for each of the performance metrics, with an emphasis on progress towards strategic priorities as the most important metric for fiscal year 2011 with a 40% weighting. The quantitative measures received the following weightings: adjusted operating income margin (25%), net flows (20%) and investment performance (15%). The Committee applied the final weightings to its final overall score for each metric and established a bonus pool that equaled the initial target pool. As a final check, the Committee reviewed Legg Mason s stock price performance over the fiscal year to confirm the reasonableness of the bonus pool amount. Legg Mason s total stockholder return of 26% ranked second among nine asset management companies for the year. At the request of Mr. Fetting, the Committee then decided to award participants incentive awards that were 18% lower, in aggregate, than the final bonus pool amount to reflect the fact that while Legg Mason made progress in improving its financial results during the fiscal year, we continue to seek improvement in our core business.

Chief Executive Officer

The Committee maintained Mr. Fetting s base salary in fiscal year 2011 for the reasons discussed above under Components of Compensation Program.

In April 2011, the Committee allocated a portion of the final bonus pool under the executive compensation program to Mr. Fetting as an incentive award. In determining Mr. Fetting s incentive award under the program, the Committee considered the performance metrics discussed above and subjective measures of Mr. Fetting s responsibilities and performance during fiscal year 2011, including:

Additional measures of Legg Mason s performance during the year, including increased revenues, net of distribution and servicing expenses, as compared to the prior year, increases in the earnings and adjusted earnings during the fiscal year as compared to the prior year, and improved AUM mix in fiscal year 2011 in terms of including additional assets in more value-added products and a more balanced portfolio, with equity assets increasing to 28% of total AUM;

The company s progress towards its strategic priorities during the fiscal year;

Enhancing the company s management succession planning and strategic planning processes;

Protecting the company s strong reputation, including through stakeholder communications, and risk and reputation management; and

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Effectively leading the company and its management team, including a significant management realignment, and chairing the Board of Directors through the year.

In addition, the Committee considered advice from Towers Watson as to relevant market compensation practices and the appropriateness of the award the Committee was considering.

The Committee then compared Mr. Fetting s award under the program to the 28% maximum allocation of the Executive Pool made by the Committee in June 2010. Taking all of these factors into account, the Committee granted Mr. Fetting a $4.9 million incentive award, paid 29% in the form of shares of restricted stock, 12% in the form of stock options and the remainder in cash. Mr. Fetting s award under the program constitutes 13% of the Executive Pool. In determining the split between cash and equity, the Committee considered market practices and used its discretion to determine an appropriate split. In determining the long-term equity award split between restricted stock and stock options, the Committee considered market practices and Mr. Fetting s current common stock, restricted stock and stock option holdings and used its discretion to determine an appropriate split. The Committee also considered, in determining the equity award split, a comparison of the equity holdings of Mr. Fetting, the sum of the value of unvested restricted stock and stock option awards plus the value of all other company equity owned, to the equity holdings in their companies of the chief executive officers of nine publicly traded asset management companies. Mr. Fetting s incentive award was ratified by our independent directors.

Mr. Fetting s total fiscal year 2011 compensation (salary plus total incentive award) represents a 37% increase from his total fiscal year 2010 compensation (salary plus total incentive award). The Committee, with the Board s concurrence, decided that this increase was appropriate in light of the improvements in Legg Mason performance and the individual performance factors discussed above.

Other Named Executive Officers

In April 2010, the Committee approved fiscal year 2011 base salaries of $350,000 for Messrs. Dewhurst, Nattans and Sullivan after considering the factors discussed above under Components of Compensation Program.

In June 2010, the Committee allocated maximum percentages of the Executive Pool under the Executive Incentive Compensation Plan of 16%, 10%, and 15% to each of Messrs. Dewhurst, Nattans and Sullivan, respectively.

In July, 2010, Charles J. Daley, Jr. resigned his position as Chief Financial Officer of Legg Mason to pursue another opportunity. Upon his resignation, Mr. Daley was awarded a $175,000 cash incentive award for the portion of the fiscal year that he served as Chief Financial Officer. Mr. Daley s award constituted less than a pro rata portion of his fiscal year 2010 cash incentive award.

Upon Mr. Daley s resignation, Terrence J. Murphy, the Chief Operating Officer of the company s ClearBridge Advisors asset manager at the time, served as interim Chief Financial Officer until Mr. Nachtwey was hired in January 2011. Throughout the time he served as interim Chief Financial Officer, Mr. Murphy continued to serve as Chief Operating Officer of ClearBridge. Mr. Murphy was paid an annual incentive award of $1.675 million, 79% of which was paid in cash, 10% of which was paid in the form of restricted stock and 11% was paid in the form of a mutual fund unit-based award under a ClearBridge plan. The incentive award was paid by ClearBridge and Legg Mason for his services on behalf of both entities during the year and as a result Mr. Murphy was not considered to be a participant in the bonus pool under the executive compensation program.

In December 2010, David R. Odenath departed from the company in connection with a realignment of the senior management team. In connection with that departure, Legg Mason entered into a Severance and Release of Claims Letter agreement with Mr. Odenath. Under that letter, in return for a release of claims against the company and in settlement of amounts due to Mr. Odenath under the terms of an offer letter entered into when he was hired in 2008, Mr. Odenath received (i) accelerated vesting of the 38,262 shares of restricted stock and 141,644 stock options with an exercise price of $14.81 that constituted the remaining unvested portion of the initial equity awards Mr. Odenath received in October 2008 and (ii) a cash payment of $3,936,000.

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Effective January 2011, Legg Mason hired Peter H. Nachtwey to serve as Chief Financial Officer. As part of the agreement reached in hiring Mr. Nachtwey, it was agreed that he would receive a base salary during the remainder of fiscal year 2011 at the annual rate of $350,000, an agreed pro rated annual incentive award for the approximately 3 months he was employed and a sign-on bonus.

In April 2011, the Committee allocated a portion of the final bonus pool under the executive compensation program to each of the named executive officers as incentive compensation. In approving these awards, the Committee considered the recommendations of Mr. Fetting, the accomplishments discussed below for each officer, in the case of Mr. Nachtwey, the incentive award that was agreed when he was hired, and subjective factors about each executive officer including:

- the responsibilities of the officer;
- Mr. Fetting s views as to the individual performance and contributions by the named executive officer during the fiscal year; and
- Mr. Fetting s views of the initiative, business judgment and management skills of the named executive officer.

The Committee also considered advice from Towers Watson as to relevant market compensation practices and the appropriateness of the award that the Committee was considering approving for each officer. Taking these factors into account, the Committee approved incentive awards of $3.4 million, $0.575 million, $1.5 million and $3.2 million for Messrs. Dewhurst, Nachtwey, Nattans and Sullivan, respectively. In approving the split between cash and equity for each officer, the Committee considered market practices and used its discretion to determine an appropriate split. In considering total incentive awards and cash/equity splits, the Committee also considered a comparison of the equity holdings of each executive to that of executives with comparable responsibilities at nine publicly traded asset management companies. In approving the long-term equity award split between stock options and restricted stock for Messrs. Nattans and Sullivan, the Committee used its discretion after considering Mr. Fetting s recommendations and the current common stock, restricted stock and stock options held by the officer. Mr. Dewhurst received only restricted stock based on Mr. Fetting s recommendations and potential adverse tax consequences of stock option ownership in Mr. Dewhurst s non-U.S. home jurisdiction. Mr. Nachtwey s split among cash, restricted stock and stock options was determined under the terms of his agreement.

The incentive award for Mr. Dewhurst was paid 59% in cash and 41% in shares of restricted stock. Mr. Dewhurst s award constituted 9% of the Executive Pool. Mr. Dewhurst s total fiscal year 2011 compensation (salary plus total incentive award) represents a 3% increase from his total fiscal year 2010 compensation. In approving this incentive award, the Committee considered Mr. Dewhurst s achievements during the fiscal year, including the four quarters of net inflows in AUM and favorable financial results achieved by the International Distribution group, which Mr. Dewhurst managed until a management realignment in December 2010, and development of new product innovation strategies, which culminated in successfully launching several new products during the fiscal year.

The incentive award for Mr. Nachtwey was paid 57% in cash and the remainder split evenly between shares of restricted stock and stock options. Mr. Nachtwey s award equaled 2% of the Executive Pool. Mr. Nachtwey s award amount was specified in a letter agreement signed in connection with his being hired. In approving this incentive award, the Committee considered Mr. Nachtwey s achievements during the portion of the fiscal year in which he was employed, including achieving a seamless transition of the Chief Financial Officer position, representing the company in meetings with analysts, investors and other interested parties and taking over responsibility for overseeing the ongoing implementation of the business model streamlining initiative. In addition to this incentive award, Mr. Nachtwey was paid a sign-on bonus of $500,000 in cash and $250,000 in shares of restricted stock and $250,000 in stock options when he joined the company.

The incentive award for Mr. Nattans was paid 60% in cash, 28% in shares of restricted stock and 12% in stock options. Mr. Nattans award constituted 4% of the Executive Pool. Mr. Nattans total fiscal year 2011 compensation represents a 25% increase from his total fiscal year 2010 compensation. The Committee felt that this increase was appropriate to reflect the company s improved performance discussed above and Mr. Nattans responsibilities and performance in the year. In approving this incentive award, the Committee considered Mr. Nattans achievements during the fiscal year, including working with the company s asset management affiliates in a number of key areas including implementing the business model streamlining initiative and developing long-term retention and succession initiatives, pursuing a pipeline of lift-out, bolt-on and other acquisition opportunities and pursuing the divestiture of certain non-core asset managers.

The incentive award for Mr. Sullivan was paid 63% in cash, 26% in shares of restricted stock and 11% in stock options. Mr. Sullivan s award constituted 9% of the Executive Pool. Mr. Sullivan s total fiscal year 2011 compensation represents a 23% increase from his total fiscal year 2010 compensation. The Committee felt that this increase was appropriate to reflect the company s improved performance discussed above and Mr. Sullivan s increased responsibilities and performance in the year. In approving this incentive award, the Committee considered Mr. Sullivan s achievements during the fiscal year, including overseeing the business streamlining initiative for most of the fiscal year, including a major transition in the corporate areas that Mr. Sullivan headed, transitioning to overseeing the company s global distribution operations and developing a strategic growth plan for the global distribution operations.

Compensation Clawback Policy

The Committee has adopted a compensation clawback policy that applies to all incentive compensation received by executive officers. Under the policy, Legg Mason may recover from an executive officer the amount of previously paid incentive compensation (including both cash bonuses and equity awards) that the Board of Directors determines to be appropriate in two circumstances. The first circumstance arises if an executive officer s acts or omissions are a significant contributing factor to a requirement that Legg Mason restate its reported financial results due to a material error. The second circumstance under which compensation may be recovered under the policy arises if the executive officer s employment is terminated for cause. Under the policy, cause is defined to include instances of gross negligence, willful misconduct or willful malfeasance that materially adversely affect the company s reputation or business; willful violations of law that materially adversely affect the company s reputation or business or the ability of the officer to be associated with an investment advisor; or theft, embezzlement or fraud. This clawback provision is intended to provide enhanced safeguards against certain types of executive misconduct, and allows for recovery of significant compensation paid to an officer who engages in misconduct.

New Long-Term Incentive Plan

The Committee believes that a significant portion of compensation should be influenced by company performance over more than a single year. In furtherance of this belief, in May 2011, the Committee established a long-term incentive plan under the 1996 Equity Incentive Plan for executive officers to provide an element of compensation that is based on performance over three years. The long-term incentive plan will also more directly tie executive compensation to achievement of established goals in adjusted earnings per share and will better align the interests of our executives with those of our stockholders. Under the plan, executive officers will be awarded performance units annually. The units will vest at the end of a three year period based upon Legg Mason s cumulative adjusted earnings per share over the period. If the adjusted earnings per share over the period are less than a specified threshold, no units will vest. If adjusted earnings per share equal a specified target, the performance units will vest 100% and be paid out in cash or shares of Legg Mason common stock with a value equal to the initial award amount. The amount of cash or value of shares paid at vesting will be increased to 200%, or decreased to 25%, of the initial award amount if the adjusted earnings per share over the vesting period are within a specified amount higher or lower than the target amount. The payout amount at vesting will be further increased or decreased by 20% (subject to the 25% and 200% limits) if Legg Mason s total stockholder return over the vesting period is within the top quartile or bottom quartile, respectively, of a specified group of 16 publicly traded companies in the asset management business. The long-term incentive plan awards are subject to stockholders approving the proposed amendment to the 1996 Equity Incentive Plan discussed below.

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Summary Compensation Table

The following table summarizes the total compensation during the fiscal year ended March 31, 2011 of our Chief Executive Officer, our Chief Financial Officer, each of our three other most highly compensated executive officers during the fiscal year and three former executive officers who served in that role during part of the fiscal year. **The information in this table differs from the information in the table above under Compensation Discussion and Analysis Compensation Decisions for Fiscal Year 2011 primarily in that this table includes the grant date value of equity awards made during fiscal year 2011 as required by SEC rules rather than the grant date value of equity awards made for fiscal year 2011, which were awarded after the end of the fiscal year. The table also differs because it includes three former executive officers.**

Name and Principal Position	Fiscal Year	Salary($)	Cash Bonus($)(1)(2)	Stock Awards($)(3)	Option Awards($)(4)	Non-Equity Incentive Plan Compensation($)	All Other Compensation($)(5)	Total($)
Mark R. Fetting	2011	$ 500,000	$ 2,900,000	$ 1,875,000	$ 625,000		$ 21,272	$ 5,921,272
Chief Executive Officer	2010	500,000	950,000	407,143	2,736,000		20,231	4,613,374
	2009	500,000	950,000	1,586,900	1,040,400		32,416	4,109,716
Peter H. Nachtwey(6)	2011	80,208	825,000	250,000	250,000		33,812	1,439,020
Chief Financial Officer								
Ronald R. Dewhurst	2011	363,825(7)	2,000,000	1,800,000			137,074 11,278	4,300,899
Senior Executive Vice President	2010	330,728	1,500,000	676,950	609,216			3,128,172
Jeffrey A. Nattans	2011	345,833(8)	900,000	300,000	100,000		20,642	1,666,475
Executive Vice President								
Joseph A. Sullivan	2011	350,000	2,000,000	500,000	500,000		21,052	3,371,052
Senior Executive Vice President	2010	350,000	1,545,000	1,215,775	425,600		26,475	3,562,850
	2009	184,280	1,545,000	750,000	750,000		12,316	3,241,596
Charles J. Daley, Jr.(9)	2011	107,197	175,000	450,000	150,000		9,314	891,511
Former Chief Financial Officer	2010	289,583	950,000	498,275	425,600		12,629	2,176,087
	2009	250,000	950,000	551,047	520,200		15,384	2,286,631
Terrence J. Murphy(10)	2011	237,500	1,320,000	56,250		$ 235,821		
Former Interim Chief Financial Officer								