LEGG MASON, INC.
Form DEF 14A
June 15, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
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):
No fee required.
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(2) Form, Schedule or Registration Statement No.:
(3) Filing Party:
(4) Date Filed:

100 International Drive
Baltimore, Maryland 21202

Dear Fellow Legg Mason Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders. We will hold the meeting at Legg Mason's headquarters located at 100 International Drive, 4th Floor Conference Center, Baltimore, Maryland at 10:00 a.m. on Tuesday, July 26, 2016. The attached Notice of Annual Meeting and Proxy Statement describe the business that we will conduct at the meeting and provide information about Legg Mason.

We are pleased to once again this year furnish proxy materials to our stockholders via the Internet. The e-proxy process expedites stockholders' receipt of proxy materials while lowering the costs and reducing the environmental impact of our Annual Meeting of Stockholders. On or about June 15, 2016, we will mail to our stockholders a Notice of Internet Availability of Proxy Materials ("Notice"). The Notice contains instructions on how to access our Proxy Statement, Annual Report and other soliciting materials and how to vote. The Notice also contains instructions on how you can request a paper copy of the Proxy Statement and Annual Report.

Your vote is important and we encourage you to vote promptly. Whether or not you are able to attend the meeting in person, please follow the instructions contained in the Notice on how to vote via the Internet or via the toll-free telephone number, or request a paper proxy card to complete, sign and return by mail so that your shares can be voted.

We hope that you will attend the meeting, and we look forward to seeing you there. On behalf of the Board of Directors, I extend our appreciation for your continued support.

Sincerely,

JOSEPH A. SULLIVAN

Chairman and Chief Executive Officer

June 15, 2016

Notice of Annual Meeting of Stockholders

Tuesday, July 26, 2016

10:00 a.m. Local Time

100 International Drive, 4th Floor Conference Center, Baltimore, Maryland

To the Stockholders of

LEGG MASON, INC.:

We will hold the Annual Meeting of Stockholders of Legg Mason, Inc., a Maryland corporation, at Legg Mason's headquarters located at 100 International Drive, 4th Floor Conference Center, Baltimore, Maryland, on Tuesday, July 26, 2016 at 10:00 a.m. to consider and vote upon:

1. The election of 11 directors named in the Proxy Statement for a one year term;
2. Re-approval of the Legg Mason, Inc. 1996 Equity Incentive Plan;
3. An advisory vote to approve the compensation of Legg Mason's named executive officers;
4. Ratification of the appointment of PricewaterhouseCoopers LLP as Legg Mason's independent registered public accounting firm for the fiscal year ending March 31, 2017; and
5. 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 26, 2016, as the date for determining stockholders of record entitled to notice of and to vote at the Annual Meeting.

This year, we will again save mailing and printing costs by providing proxy materials to you over the Internet instead of mailing printed copies of those materials to each of our stockholders. On or about June 15, 2016, we will mail to our stockholders a Notice of Internet Availability of Proxy Materials ("Notice") containing instructions on how to access our Proxy Statement and our Annual Report online. The Notice also will provide 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. Your vote is important and we encourage you to vote promptly whether or not you plan to attend the Annual Meeting. If you attend the Annual Meeting, you may withdraw your proxy and vote in person. Whether you receive the Notice or paper copies of our proxy materials, the Proxy Statement and Annual Report are available to you at *www.leggmason.com* under the *"About–Investor Relations"* section.

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

June 15, 2016

By order of the Board of Directors,

THOMAS C. MERCHANT

General Counsel and Secretary

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PROXY STATEMENT

The Board of Directors of Legg Mason, Inc. is soliciting proxies from our 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 $15,000, 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 (“Notice”) and other proxy materials to their principals.

In accordance with the 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 our Proxy Statement, to our stockholders over the Internet. If you have received the Notice by mail, you will not receive a printed copy of the proxy materials. Instead, the Notice will contain instructions on how to access and review all of the important information contained in the proxy materials. The Notice also provides instructions on how to 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 the materials.

It is expected that the Notice will be available to stockholders on June 15, 2016.

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 26, 2016. As of the close of business on that date, we had outstanding and entitled to vote 105,110,659 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, 2016.
- In person: 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 (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 annual 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 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 Legg Mason, Inc. 1996 Equity Incentive Plan will be re-approved if the proposal receives the affirmative vote of a majority of the votes cast, and the total votes cast on the proposal represent over 50% in interest 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 advisory vote to approve the compensation of our named executive officers 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 Legg Mason.

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PROPOSAL 1 ELECTION OF DIRECTORS

Legg Mason's Board of Directors (the "Board" or "Board of Directors") currently consists of 11 directors, which number may be increased or decreased by the Board of Directors. At the 2016 Annual Meeting, 11 directors are to be elected for one-year terms to hold office until the 2017 Annual Meeting and until their successors have been elected and qualified. All nominees are current Legg Mason directors who were elected by stockholders. Following the 2016 Annual Meeting, assuming all the directors nominated are re-elected, Legg Mason's Board of Directors is expected to consist of 11 directors, 10 of whom will be "independent" as defined in the New York Stock Exchange ("NYSE") listing standards.

The Board of Directors recommends stockholders vote "FOR" the election of each of the 11 nominees. The Board of Directors has no reason to believe that any nominee will be unable to serve. If any nominee is not able to serve, proxies will be voted in favor of the remainder of those nominated and may be voted for substitute nominees, unless the Board of Directors chooses to reduce the number of directors serving on the Board of Directors.

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

Director Nominees

Robert E. Angelica

Director Since 2007
Age 69

Robert E. Angelica, age 69, 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 gained while serving as the Chairman and Chief Executive Officer of ATTIMCO, which was responsible for the investment and administration of more than $80 billion of employee benefit plan assets for AT&T Inc. and certain third parties. 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 was awarded the Chartered Financial Analyst designation. Our Board has determined that Mr. Angelica qualifies as an "audit committee financial expert" under the rules and regulations of the SEC.

Carol Anthony ("John") Davidson

Director Since 2014
Age 60

Carol Anthony ("John") Davidson, age 60, has been a director of Legg Mason since May 2014, and is currently engaged in private investment activities. From January 2004 to September 2012, Mr. Davidson served as the Senior Vice President, Controller and Chief Accounting Officer of Tyco International Ltd. ("Tyco"). Mr. Davidson has served as a director of DaVita HealthCare Partners, Inc. since December 2010, a director of Pentair Ltd. since October 2012 and a director of T E Connectivity Ltd. since March 2016. Mr. Davidson also serves on the Board of Governors of the Financial Industry Regulatory Authority ("FINRA"). From 2011 to 2015, Mr. Davidson served as a member of the Board of Trustees of the Financial Accounting Foundation, which oversees financial accounting and reporting standard setting processes for the United States.

Mr. Davidson's qualifications to serve on our Board include his more than 30 years of leadership experience across multiple industries, including his leadership roles at Tyco, six years at Dell Inc., where he held various leadership roles, including vice president, audit, risk and compliance, and vice president, corporate controller and 16 years at Eastman Kodak Company, a provider of imaging technology products and services, in a variety of accounting and financial leadership roles. In addition, Mr. Davidson, a certified public accountant, has a strong track record of implementing governance and controls processes. Our Board has determined that Mr. Davidson qualifies as an "audit committee financial expert" under the rules and regulations of the SEC.

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Barry W. Huff

Director Since 2009
Age 72

Barry W. Huff, age 72, has been a director of Legg Mason since June 2009 and is currently engaged in private consulting. After 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 oversight and advisory services provided to numerous Deloitte clients in the United States and globally in various industries, including financial services, manufacturing and regulatory, and supervision of risk management activities related to Deloitte’s Accounting & Auditing Practice. Our Board has determined that Mr. Huff, a certified public accountant, qualifies as an “audit committee financial expert” under the rules and regulations of the SEC.

Dennis M. Kass

Director Since 2013
Age 65

Dennis M. Kass, age 65, has been a director of Legg Mason since April 2013 and served as our independent Chairman from July 2013 until October 2014. Mr. Kass retired in 2012 as Chairman and Chief Executive Officer of Jennison Associates, an asset management company wholly-owned by Prudential Financial, Inc., having served as Chairman and CEO of Jennison Associates from 2003 through 2011. Previously, he had spent more than a decade with JP Morgan’s investment management unit, culminating in the position of Vice Chairman and Chief Fiduciary Officer of JP Morgan Fleming Asset Management. Mr. Kass served in the Reagan Administration from 1985 to 1987 as the Assistant Secretary of Labor for Pension and Welfare Benefits and was a Special Assistant to the President for Policy Development from 1981 to 1982. From 2013 to 2014, Mr. Kass was the Vice Chairman and a Senior Advisor at Ridgeway Partners, an executive search firm. Mr. Kass has served as a director of The Wendy’s Company since December 2015. He is a past trustee and vice chairman of the Financial Accounting Foundation and currently serves as a member of the Advisory Board of Lockheed Martin Investment Management Company, a trustee of Princeton Theological Seminary and on the Advisory Board for Finance and the Global Executive Board of M.I.T.’s Sloan School of Management.

Mr. Kass’ qualifications to serve on our Board include the knowledge and experience gained in the combination of more than 20 years of asset management experience and his public service in the Reagan Administration. In addition, he gained extensive leadership experience serving as the Chief Executive Officer of Jennison Associates and serving on various boards. Our Board has determined that Mr. Kass qualifies as an “audit committee financial expert” under the rules and regulations of the SEC.

Cheryl Gordon Krongard

Director Since 2006
Age 60

Cheryl Gordon Krongard, age 60, 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 Air Lease Corporation since December 2013 where she currently serves on the Compensation Committee. Previously, she served as director of US Airways Group Inc. from 2003 until December 2013 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 within the financial services sector.

John V. Murphy

Director Since 2013
Age 66

John V. Murphy, age 66, has been a director of Legg Mason since June 2013 and has served as our Lead Independent Director since October 2014. Mr. Murphy is currently engaged in private investment activities. Mr. Murphy was employed by Korn/Ferry International, an executive search firm, from 2010 to 2012. From 2000 to 2009, Mr. Murphy was employed in various senior positions with OppenheimerFunds Inc., an asset management firm, including Chairman, President and Chief Executive Officer. He also served as a director of over 60 mutual funds in the OppenheimerFunds complex. Prior to joining OppenheimerFunds, he spent eight years with MassMutual Financial Group, OppenheimerFunds’ parent company, in a variety of senior roles. Before that, he was a founding principal of Liberty Financial Companies Inc., an investment management firm. He began his career at Arthur Andersen & Co. in 1972 as an accountant.

Mr. Murphy's qualifications to serve on our Board include the knowledge, leadership and experience gained in over 30 years of experience working in the investment management business and as a Chairman, President and Chief Executive Officer of a large, complex asset management organization. In addition, he gained extensive industry and leadership experience by serving as Chairman and as a member of the Executive Committee and the Board of Governors of the Investment Company Institute.

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John H. Myers

Director Since 2013
Age 70

John H. Myers, age 70, has been a director of Legg Mason since June 2013. Mr. Myers has been a senior advisor to Angelo, Gordon & Co., an investment advisor, since 2007. In 2006, he retired from his role as President and Chief Executive Officer of GE Asset Management, an institutional asset management subsidiary of General Electric Company, after spending almost a decade in that role and a total of almost 40 years in various management positions at the General Electric Company.

Mr. Myers' qualifications to serve on our Board include the knowledge and experience gained in almost four decades with General Electric, including almost two decades in the asset management business at GE Asset Management. In addition, he gained extensive leadership experience serving as President and Chief Executive Officer of GE Asset Management and serving as a former director of two public companies.

W. Allen Reed

Director Since 2006
Age 69

W. Allen Reed, age 69, has been a director of Legg Mason since April 2006 and served as our independent Chairman from September 2012 through July 2013. 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 served as Senior Advisor to Aetos Capital from 2006 to 2011, as a director of Temple-Inland Industries from 2000 to February 2012 and as a director of General Motors Acceptance Corp from September 1994 to March 2006. Mr. Reed has also served as a director of numerous mutual funds (96 as of December 31, 2015) in the Morgan Stanley mutual funds complex since 2006, and as Chairman of the Investment Committee of the Auburn University Foundation Fund from 2012 to 2014.

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 Chief Executive Officer of GMAMC, Chairman and Chief Executive Officer of the General Motors Trust Bank, and Vice President of General Motors Corporation. Mr. Reed's experience includes running the largest corporate defined benefit fund in the United States at General Motors Corporation. He currently holds the Chartered Financial Analyst designation.

Margaret Milner Richardson

Director Since 2003
Age 73

Margaret Milner Richardson, age 73, has been a director of Legg Mason since November 2003. She is currently engaged in private consulting and investment activities. Ms. Richardson served as a director of Jackson Hewitt Tax Service Inc. from June 2004 through August 2011.

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 as 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

Director Since 2002
Age 66

Kurt L. Schmoke, age 66, has been a director of Legg Mason since January 2002. Since July 2014, Mr. Schmoke has served as President of the University of Baltimore. Mr. Schmoke served as Vice President and General Counsel of Howard University from July 2012 until July 2014. Mr. Schmoke was Dean of the School of Law at Howard University from January 2003 to July 2012. He has been a director of The McGraw-Hill Companies, Inc. (now S&P Global 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.

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Joseph A. Sullivan

Director Since 2013
Age 58

Joseph A. Sullivan, age 58, has been a director of Legg Mason since February 2013 and has served as our Chairman since October 2014. Mr. Sullivan was elected President, Chief Executive Officer and a member of the Board in February 2013. Before being appointed as President and Chief Executive Officer, Mr. Sullivan served as Interim Chief Executive Officer of Legg Mason from October 1, 2012 to February 11, 2013. Prior to that, Mr. Sullivan oversaw the global distribution operations of Legg Mason. He was elected Senior Executive Vice President of Legg Mason in September 2008 and until January 2011 was responsible for overseeing administrative functions as Chief Administrative Officer. From December 2005 to September 2008, he was responsible for overseeing the fixed income capital markets operations of Stifel Nicolaus, a broker-dealer. From 1993 to December 2005, he oversaw the fixed income capital markets operations of Legg Mason Wood Walker, the company's broker-dealer subsidiary that was sold in December 2005.

Mr. Sullivan's qualifications to serve on our Board include a combination of his management skills and professional experience. Mr. Sullivan has more than 30 years of industry experience, including serving as Chief Executive Officer, Head of Global Distribution and Chief Administrative Officer of Legg Mason and senior roles at a number of other firms. Mr. Sullivan served on the board of directors of Stifel Financial Corp. from December 2005 to September 2008.

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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. Below is a summary of our committee structure and membership information. 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—Investor Relations—Governance—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**
Robert E. Angelica	M				C
Carol Anthony ("John") Davidson	M				M
Barry W. Huff	C		M		M
Dennis M. Kass	M	M	M		
Cheryl Gordon Krongard		C	M	M	
John V. Murphy		M	M	C	
John H. Myers		M		M	
W. Allen Reed			C	M	M
Margaret Milner Richardson	M				M
Kurt L. Schmoke		M		M	
Joseph A. Sullivan			M		

C—Chairman
M—Member

During the fiscal year ended March 31, 2016, our Board of Directors met five times, our Audit Committee met five times, our Compensation Committee met seven times, our Finance Committee met five times, our Nominating & Corporate Governance Committee met three times and our Risk Committee met four times. 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 2015 Annual Meeting of Stockholders, other than Dennis M.Kass and Margaret Milner Richardson. During fiscal year 2016, each of our directors attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors held during the period and (ii) the total number of meetings of each committee on which he or she served during the period.

Audit Committee

The Audit Committee's responsibilities include assisting the Board with the oversight of 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;
- ensuring the regular rotation of the lead audit partner and selecting, reviewing and evaluating the lead audit partner;
- reviewing the activities and performance 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 each of Messrs. Angelica, Davidson, Huff and Kass qualifies as an “audit committee financial expert” 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. The Audit Committee satisfies the requirements of SEC Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Rule 10A-3 establishes standards relating to audit committees in the following areas: the independence of audit committee members; the audit committee’s responsibility to select and oversee the company’s independent auditor; procedures for handling complaints regarding the company’s accounting practices; the authority of the audit committee to engage advisors; and funding for the independent auditor and any outside advisors engaged by the audit committee.

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 other 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. Each of our Compensation Committee members is a “non-employee director” as defined in the SEC rules under Section 16 of the Exchange Act, and is an “outside director,” as defined by Section162(m) of the Internal Revenue Code of 1986, as amended (the “Code”).

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 and the applicable New York Stock Exchange rules.

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 Legg Mason; 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 Legg Mason 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, developing and recommending to our Board of Directors corporate governance principles and a corporate code of conduct and reviewing, assessing and making reports and recommendations to the Board of Directors, as appropriate on Legg Mason's talent development and executive succession planning. In addition, the Nominating & Corporate Governance Committee, together with the Lead Independent Director, conducts the Board's annual evaluation process.

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's responsibilities include assisting the Board in its oversight of Legg Mason's enterprise risk management activities. Its duties 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.

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Board Role in Risk Oversight

The Board is primarily responsible for the oversight of Legg Mason's risk management activities. The Risk, Compensation, Finance, Audit and Nominating & Corporate Governance Committees assist the Board in fulfilling this important role. The Risk Committee oversees Legg Mason's enterprise risk management activities. The Compensation Committee oversees the relationship between risk and executive compensation. The Finance Committee reviews potential risks related to significant transactions under consideration by Legg Mason. The Audit Committee monitors our system of disclosure controls and procedures and internal controls over financial reporting, reviews contingent financial liabilities and oversees our employee reporting hotline. The Nominating & Corporate Governance Committee is focused on overseeing risks related to succession and other corporate governance matters. The committees of the Board of Directors work together to help ensure that all committees have received all information necessary to permit them to fulfill their duties and responsibilities with respect to the activities of those committees that relate to the oversight of 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 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

We conduct the majority of our business through our asset managers which are individual businesses. Each asset manager generally focuses on a portion of the asset management industry in terms of the types of assets managed (primarily equity or fixed income), the types of products and services offered, the investment styles utilized, the distribution channels used, and the types and geographic locations of its clients. Each of our primary asset managers is generally operated as a separate entity that typically markets its products and services under its own brand name. Certain distribution functions are often provided by the parent company and other affiliates. Consistent with this approach, we have revenue sharing arrangements in place with six of our asset managers and/or certain of their key officers. Pursuant to these revenue sharing arrangements, a specified percentage of the asset manager's revenues, net of certain third party distribution expenses, is required to be distributed to us and the balance of the revenues (or net revenues) is retained to pay operating expenses, including salaries and bonuses, but excluding certain expenses such as amortization of acquired intangible assets and income taxes. Specific compensation allocations are determined by the asset manager's management, subject to corporate management approval in certain cases. Our asset managers and other business units that do not operate under revenue sharing arrangements utilize a variety of discretionary or formulaic incentive compensation determinations. In addition, the management teams of three of our affiliates hold significant equity interests in the applicable company, which helps to align the interests of the management of those three affiliates with the interests of our shareholders. In addition, the asset management industry in which we operate tends to be a long-term business, as investment performance over multi-year periods is a critical competitive element of the business. Also, as is typical in the asset management business, and unlike other financial services companies, we are not exposed to the short-term risks arising from proprietary trading because we do not engage in proprietary trading.

The executive officer compensation program is structured in a manner intended to mitigate against providing incentives for inappropriate risk taking. The executive officers' salaries are fixed in amount. Incentive compensation is linked to overall corporate performance and a substantial portion of compensation is in the form of long-term equity awards that further align executives' interests with those of Legg Mason's stockholders. The value of equity awards is tied to Legg Mason's stock price. These awards do not encourage excessive or inappropriate risk taking given that the awards are subject to long-term vesting schedules to help ensure that executives have significant value tied to long-term stock price performance. As part of fiscal year 2016 incentive compensation, we awarded performance share units that will result in payout only based on relative performance over a three year period ending March 31, 2019. We believe our incentive award program, coupled with our stock ownership guidelines and anti-hedging and pledging policies for executives, create important linkages between the financial interests of our executives and the long-term performance of Legg Mason and help to protect against any incentive to disregard risks in return for potential short-term gains. Moreover, the Compensation Committee considers several performance metrics in establishing the executive compensation pool each year, so no one metric creates an undue reward that might encourage excessive risk taking. The executive compensation incentive pool amount is also subject to adjustment in the discretion of the Compensation Committee based on the performance metrics and any qualitative factors established by the Committee for use as a basis for revising the pool amount.

To further ensure the alignment of compensation with long-term performance, we have adopted a policy for the clawback of incentive compensation from named executive officers in the event a named executive officer's acts or omissions contribute to a need for a restatement of our financial results or if a named executive officer is terminated for cause. Additional information on our executive officer compensation practices is 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. This conclusion is supported by the work of a committee consisting of representatives from our finance, human resources, legal and enterprise risk management departments, which evaluates whether our compensation policies and practices are reasonably likely to have a material adverse effect on Legg Mason.

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Compensation Consultant to the Compensation Committee

For fiscal year 2016, the Compensation Committee retained Semler Brossy Consulting Group, LLC, an independent executive compensation consulting firm, to provide compensation consulting services. As directed by the Compensation Committee, Semler Brossy 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. Semler Brossy did not provide additional consulting or other services to management or Legg Mason subsidiaries during fiscal year 2016.

Board Leadership Structure

The Board is responsible for determining its leadership structure. The current Chairman, Joseph A. Sullivan, is also our President and Chief Executive Officer. John V. Murphy is our Lead Independent Director. The Board believes that Legg Mason 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. As a result, the Board does not support placing restrictions on who may serve as Chairman and future facts and circumstances may warrant a different leadership structure to best serve Legg Mason and its stockholders. While the roles of Chairman of the Board and Chief Executive Officer previously were separated during a period of leadership transition beginning in September 2012, when Mr. Sullivan became interim Chief Executive Officer, the Board has determined that the current leadership structure is appropriate to provide a consistent and unified focal point of leadership for Legg Mason and facilitate frequent and effective communication between the Board and management.

In order to ensure independent leadership on the Board, our Corporate Governance Principles provide for a Chairman and/or a Lead Independent Director. The duties of the Chairman, independent or non-independent, are delegated by the Board. The duties of an independent Chairman include presiding over meetings of our Board and stockholders and providing oversight and assistance to our executive management team. In addition, the duties of an independent Chairman will include those of the Lead Independent Director. When the Chairman is not independent, the duties of the Lead Independent Director include, but are not limited to, the approval of agendas and schedules for Board meetings to ensure there is sufficient time to address all agenda items, acting as a liaison between the Chief Executive Officer and the independent directors and serving as the chair for executive sessions of the independent directors.

The Board believes that the combined Chairman and Chief Executive Officer structure allows for robust and frequent communication between the Board and Legg Mason’s management team. To facilitate coordination with the independent directors and to ensure the exercise of independent judgment by the Board of Directors, the Board appointed John V. Murphy to serve as the Lead Independent Director. Mr. Murphy is also the Chair of the Nominating & Corporate Governance Committee. The Lead Independent Director’s duties include:

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presiding at meetings of the Board in the absence of or at the request of the Chairman of the Board, or in any situation in which the Chairman of the Board may be perceived to have a conflict;

- coordinating the flow of information to and among independent directors;
- reviewing and approving all Board meeting agendas;
- soliciting from other independent directors comments or suggestions related to Board operations, including the flow of information to directors, the setting of meeting agendas and the establishment of the schedule of Board meetings and communicating those suggestions to the Chairman;
- serving as the liaison between the independent directors and the Chairman and as the representative of the independent directors in communications with the Chairman of the Board and management outside of regular Board meetings;
- leading, with the assistance of the Nominating & Corporate Governance Committee, the Board’s annual evaluation process;
- serving as liaison and providing direction to advisers and consultants retained by the independent directors; and
- assisting the Chairman of the Board in integrating into the Board newly elected independent directors.

The Lead Independent Director also has the authority to call additional meetings of the independent directors and is available for consultation or direct communication with major stockholders. Each of these responsibilities is set out in Legg Mason’s Corporate Governance Principles.

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. Other than Mr. Sullivan, all of our current directors are independent, as determined in accordance with New York Stock Exchange Listing Standards.

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Compensation of Directors

Directors who are Legg Mason employees do not receive compensation for their services as 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 Compensation Committee consults with its compensation consultant to determine the reasonableness and adequacy of our non-employee director compensation. The following table outlines the regular compensation that is paid to our non-employee directors:

Compensation Element	Amount of Compensation
Cash Retainers	
Annual Board Retainer	$50,000
Lead Independent Director	$25,000
Audit Committee Chairman Retainer	$17,500
Nominating & Corporate Governance, Compensation, Finance and Risk Committee Chairmen Retainers	$10,000
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
Committee Meeting Fees	$2,000 per in-person meeting attended and $1,000 per telephonic meeting attended
Equity Awards	
Annual Board Award(1)	$125,000
Initial Board Election Award(1)	$125,000

(1) Under the terms of the Legg Mason, Inc. Non-Employee Director Equity Plan, as amended, each of our non-employee directors receives, on the 31st 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: (i) a grant of shares of common stock that have a market value, on the grant date, of $125,000; (ii) 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 (iii) a grant of restricted stock units equal to the number of shares of common stock that have a market value, on the grant date, of $125,000.

We also reimburse each of our non-executive directors for their travel expenses incurred in connection with attendance at Board and Committee meetings. Following a review of the compensation of our non-employee directors, the Board, based on a recommendation of the Compensation Committee, has determined that fees for non-employee directors will remain unchanged for fiscal year 2017.

Restricted stock units granted under the Legg Mason, Inc. Non-Employee 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 plan covers an aggregate of 625,000 shares of common stock.

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Director Compensation Table

The following table provides information about the compensation earned by our non-employee directors during fiscal year 2016.

Name	**Fees Earned or Paid in Cash ($)(1)**	Stock Awards ($)	**All Other Compensation ($)(2)**	Total ($)
Robert E. Angelica	127,000 (3)	75,002 (4)	–	202,002
Carol Anthony "John" Davidson	67,000	125,003 (5)	4,903	196,906
Barry W. Huff	141,500 (3)	75,002 (4)	–	216,502
Dennis M. Kass	74,000	125,003 (5)	–	199,003
Cheryl Gordon Krongard	86,000	125,003 (5)	–	211,003
John V. Murphy	110,000 (6)	125,003 (5)	–	235,003
John H. Myers	68,000	125,003 (5)	–	193,003
W. Allen Reed	82,000	125,003 (5)	–	207,003
Margaret M. Richardson	65,000	125,003 (5)	13,263	203,266
Kurt L. Schmoke	66,000	125,003 (5)	19,120	210,123

(1) In addition, non-employee directors receive reimbursement of actual expenses incurred for attendance at meetings or participating in company business.
(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 Legg Mason, Inc. Non-Employee Director Equity Plan.
(4) Represents value of 1,575 shares of common stock granted on July 28, 2015, as a portion of the annual award under the Legg Mason, Inc. Non-Employee Director Equity Plan.
(5) Represents value of 2,625 restricted stock units or shares of common stock granted on July 28, 2015 for the annual award under the Legg Mason, Inc. Non-Employee Director Equity Plan.
(6) Includes $25,000 paid for the Lead Independent Director Retainer.

As of March 31, 2016, our non-employee directors held the following unexercised stock options and restricted stock units:

Name	Unexercised Stock Options (#)	Restricted Stock Units (#)
Robert E. Angelica	–	–
Carol Anthony "John" Davidson	–	7,778
Barry W. Huff	–	–
Dennis M. Kass	–	–
Cheryl Gordon Krongard	–	–
John V. Murphy	–	–

John H. Myers	–	–
W. Allen Reed	–	–
Margaret Milner Richardson	–	18,908
Kurt L. Schmoke	–	26,706

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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. 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 our policy regarding annual performance evaluations 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—Investor Relations—Governance—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. The Code of Conduct addresses the following important topics, among others: conflicts of interest; corporate opportunities; confidentiality of information; fair dealing; protection and proper use of Legg Mason's assets; compliance with laws, rules and regulations (including insider trading laws); and encouraging the reporting of any illegal or unethical behavior. A copy of the Code of Conduct is available on our corporate website at *www.leggmason.com* under the *"About—Investor Relations—Governance—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. Legg Mason maintains an employee reporting hotline where employees can anonymously submit a complaint or concern regarding compliance with applicable laws, rules, regulations or the Code of Conduct as well as accounting, auditing, ethical or other concerns. 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 all of our non-employee directors qualify as independent directors under the standards promulgated by the NYSE. No director is considered independent unless the Board of Directors has determined that he or she has no material relationship with Legg Mason. As part of its determination, the Board considered the transactions and relationships described below under "Compensation Committee Interlocks and Insider Participation" and "Certain

Relationships and Related Transactions" and applied our Policy Regarding Director Independence Determinations as adopted by the Board, which includes categorical standards to assist the Board of Directors in making independence determinations and specifies the 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—Investor Relations—Governance—Corporate Governance"* section.

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Director Nomination Process

The Nominating & Corporate Governance 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 15, 2017 for a recommendation in 2017). Stockholders who would like to propose a director candidate for election to our Board of Directors at an annual meeting of stockholders must deliver 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 16, 2017 and February 15, 2017 for nomination in 2017). 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;
- 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.

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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 Legg Mason or one of its 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 Nominating & Corporate Governance Committee to approve, or reject, proposed related party transactions subject to ratification by the full committee at its next regularly scheduled meeting. The Nominating & Corporate Governance Committee uses its business judgment in deciding whether to approve related party transactions.

Board of Directors Evaluations

To ensure that the Board of Directors and each committee functions effectively, annual self-evaluations are conducted to identify and assess areas for improvements. The assessments focus on the performance, effectiveness, process and composition of the Board of Directors and each committee. The Lead Independent Director leads the Board of Directors' evaluation process and shares the results of the evaluations and feedback received with the Board. The chair of each committee leads the evaluation process for that committee and shares the results with the other committee members and the Board.

Executive Sessions

Executive sessions of our non-employee directors are held in conjunction with each regular Board of Directors meeting and may be held at other times as circumstances warrant. Our Chairman or Lead Independent Director, as applicable, chairs these executive sessions. John V. Murphy currently serves as our Lead Independent Director.

Stockholder Engagement

During fiscal year 2016, Legg Mason conducted a mid-year stockholder engagement program. The purpose of the program is to gain insights about the preferences and viewpoints of our largest stockholders on various corporate governance topics generally and our practices and outcomes specifically. In addition, we utilize this program to share certain of our compensation and corporate governance developments of interest to stockholders. When relevant, we intend to seek stockholder feedback or support for actions that management and the Board may be considering. This year, our conversations with stockholders focused primarily on board composition (diversity of experience and skill sets) and proxy access.

Communications

All interested parties who wish to communicate with our Board of Directors, the Chairman of the Board, the Lead Independent Director or our non-employee 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. 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 the receipt, retention and treatment of complaints received by Legg Mason regarding accounting, internal accounting controls, or auditing 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.

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SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the ownership of Legg Mason common stock as of May 26, 2016 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)
Shanda Group	10,526,153	(3)	10.01%
The Vanguard Group Inc.	9,519,815	(4)	9.06%
GAMCO Asset Management Inc.	6,616,299	(5)	6.29%
BlackRock, Inc.	6,053,881	(6)	5.76%
JPMorgan Chase & Co.	5,420,357	(7)	5.16%
Joseph A. Sullivan	1,138,699	(8)(9)	1.08%
Terence Johnson	246,350	(8)	*
Peter H. Nachtwey	222,829	(8)	*
Thomas C. Merchant	96,356	(8)	*
Thomas K. Hoops	90,188	(8)	*
W. Allen Reed	43,813		*
Kurt L. Schmoke	32,942	(10)	*
Cheryl Gordon Krongard	29,994		*
Margaret Milner Richardson	27,104	(10)	*
Dennis M. Kass	24,378		*
Robert Angelica	19,527		*
Barry W. Huff	19,067		*
John V. Murphy	17,707		*
John H. Myers	15,207		*
Carol Anthony ("John") Davidson	7,825	(10)	*
All current executive officers and directors as a group (16 persons)	2,064,037		1.94%

* 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.

(2) Includes, for the individuals listed below, the following number of shares subject to options exercisable within 60 days from May 26, 2016:

Name	**Number of Shares**
Joseph A. Sullivan	786,841
Terence Johnson	140,833
Peter H. Nachtwey	102,377
Thomas C. Merchant	47,768

Thomas K. Hoops	12,410
All current executive officers and directors as a group (16 persons)	**1,106,089**

Also includes for the individuals listed below, the following number of deferred but vested restricted stock units:

Name	**Number of Shares**
Joseph A. Sullivan	27,656
Peter H. Nachtwey	7,332
Thomas C. Merchant	2,162
All current executive officers and directors as a group (16 persons)	**37,150**

(3) Represents shares beneficially owned by Shanda Group, 8 Stevens Road, Singapore 257819, in its capacity as a holding company and for certain investment vehicles managed by it. Mr. Tianqiao Chen is the Chairman and Chief Executive Officer of the Shanda Group and controls each of Shanda Media Limited, Premium Lead Company Limited, Shanda Technology Overseas Capital Company Limited and Shanda Payment Investment Limited, the investment vehicles which hold shares of Legg Mason common stock. The number of shares in the preceding information is based upon a Schedule 13D report filed by Shanda Group reporting ownership as of April 11, 2016. The percentages are based on Legg Mason's outstanding shares as of May 26, 2016.

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(4) Represents shares held by The Vanguard Group, 100 Vanguard Boulevard, Malvern, PA 19355, in its capacity as investment advisor. 9,319,083 of the shares are held with sole dispositive power and 200,732 of the shares are held with shared dispositive power. 190,032 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 The Vanguard Group reporting ownership as of December 31, 2015. The percentages are based on Legg Mason's outstanding shares as of May 26, 2016.

(5) This information is based on the Schedule 13D report filed with the SEC on February 11, 2013 for shares held on February 8, 2013 by Mario J. Gabelli and the following entities which he directly or indirectly controls or for which he acts as Chief Investment Officer: Gabelli Funds, LLC, GAMCO Asset Management Inc., Gabelli Securities, Inc., Gabelli Foundation, Inc., MJG Associates, Inc., MJG-IV Limited Partnership, GGCP, Inc. and GAMCO Investors, Inc. In the aggregate, 6,616,299 of the shares are held with sole dispositive power and none of the shares are held with shared dispositive power and 6,171,799 of the shares are held with sole voting power and none of the shares are held with shared voting power. The Reporting Persons do not admit that they constitute a group. The address of Gabelli Funds, LLC, GAMCO Asset Management Inc., Gabelli Securities, Inc. and GAMCO Investors, Inc. is One Corporate Center, Rye, New York 10580. The address of MJG Associates, Inc., MJG-IV Limited Partnership and GGCP, Inc. is 140 Greenwich Avenue, Greenwich, CT 06830. The address of Gabelli Foundation, Inc. is 165 West Liberty Street, Reno, Nevada 89501. The percentages are based on Legg Mason's outstanding shares as of May 26, 2016.

(6) Represents shares held by BlackRock, Inc., 40 East 52nd Street, New York, NY 10022, 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. All 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 BlackRock, Inc. reporting ownership as of December 31, 2015. The percentages are based on Legg Mason's outstanding shares as of May 26, 2016.

(7) Represents shares held by JPMorgan & Chase Co., 270 Park Avenue, New York, NY 10017, in its capacity as investment advisor. 5,366,090 of the shares are held with sole dispositive power and 579 of the shares are held with shared dispositive power. 5,208,058 of the shares are held with sole voting power and 4,592 are held with shared voting power. The number of shares in the preceding information is based upon a Schedule 13G report filed by JPMorgan & Chase Co, reporting ownership as of December 31, 2015. The percentages are based on Legg Mason's outstanding shares as of May 26, 2016.

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

Name	**Number of Shares**
Joseph A. Sullivan	109,882
Terence Johnson	43,096
Peter H. Nachtwey	32,383
Thomas C. Merchant	13,914
Thomas K. Hoops	39,174

(9) Does not include 5,164.4373 units of the Legg Mason Common Stock Fund held in the Legg Mason Profit Sharing and 401(k) Plan and Trust which translate into 3,036.7279 shares of common stock.

(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
Kurt L. Schmoke	26,866
Margaret Milner Richardson	19,021
Carol A. Davidson	7,825

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

FISCAL YEAR 2016 PAY WELL ALIGNED WITH PERFORMANCE AND REFLECTS DISAPPOINTING FINANCIAL RESULTS DESPITE EXECUTION ON STRATEGIC PRIORITIES

- Total CEO compensation down 20%
  Other named executive officers compensation down 6-9% (6-17% giving effect to impact of exchange rates)
- CEO paid below peer group median, with variable pay constituting 94% of his total direct compensation of $8,800,000 for fiscal year 2016, which was down $2,200,000 from fiscal year 2015
- CEO's annual incentive award was paid 60% in equity and 40% in cash
- Equity awards allocated equally among RSUs, stock options and performance share units which vest based on relative TSR over a three year period

Metrics Link Pay to Strategic Goals and Performance

- Absolute performance metrics included: Global distribution unit gross sales, as well as flows, net revenues and earnings per share
- Relative performance metrics included: Organic growth rate, net income growth and one year total stockholder return

Sound Compensation Practices

- Pay practices aligned with stockholder interests, with significant variable component for named executive officer pay
- Compensation Committee continually assesses performance relative to Legg Mason's goals and competitors' performance
- Metrics reviewed annually for rigor and relevance

Strategic Accomplishments Amidst Challenging Industry Headwinds

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Announced three acquisitions and a strategic investment which expand our investment capabilities and fill key product gaps identified by management and approved by our Board as strategic priorities

- Implemented a management equity plan and enhanced revenue sharing arrangements at Royce & Associates to support that investment affiliate's repositioning

- Expanded investment product offerings by entering the exchange-traded fund ("ETF") market and by commercializing multiple products across investment affiliates, investment strategies and markets

- Continued to calibrate costs and diversify our business amidst volatile markets and investor reallocations of assets industry-wide, impacting active asset managers

Stockholders Demonstrate Support for Legg Mason Pay Practices and Outcomes

- Strong support historically on stockholders' advisory vote on named executive officer compensation

- Stockholder outreach in fiscal year 2016 provided insights on stockholders' views and affirmed support for Legg Mason's pay practices among stockholders with whom we engaged

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Fiscal Year 2016 Performance Results

Performance for the year included[1]:

1 Please also see management's discussion and analysis of financial condition and results of operations in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

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Relationship between Company Performance and Executive Compensation

Our performance assessment framework and executive compensation program are designed to link pay and performance.

Executive Compensation Program Design

The only fixed component of compensation is base salary, which ranges from 6-21% of total direct compensation for our named executive officers.

Annual performance drives the payment of annual incentive compensation, which is divided into a current cash payment, an award of stock options and restricted stock units that vest over a four year period, and an award of performance share units that vest at the end of a three year period. Long-term performance as reflected in relative total stockholder return drives the ultimate payout of the performance share units.

Performance Assessment

The Compensation Committee of our Board of Directors (the “Committee”) uses a comprehensive process to continually assess performance, which includes frequent dialogue with management about financial performance relative to our goals and relative to the performance of competitors, and assessment of corporate and individual executive accomplishments.

The Committee, in consultation with its independent compensation consultant, considers our pay-for-performance alignment when making executive compensation decisions. This consideration includes reviewing the relationship of Legg Mason performance and executive pay levels as compared to that of competitors.

OUR STRATEGIC PROGRESS

FOCUSED STRATEGY

Our strategy is straightforward and focused: to provide global investors with more diversified choices of investment strategies, products, vehicles and access.

To advance this strategy, we announced four significant acquisitions or strategic investments in fiscal year 2016 that expand our opportunities to launch differentiated products to meet investor needs, and we continued to enhance our investment capabilities and improve our global distribution through multiple product launches, entry into new markets such as ETFs, new solutions-based selling techniques and expanded use of sales analytics.

KEY STRATEGIC OPERATING PRIORITIES

- Investment products
- Investment performance
- Distribution
- Productivity

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Executive Compensation Practices

Below we highlight certain executive compensation practices we employ to align executive compensation with stockholder interests. Also listed below are certain compensation practices we do not employ because we do not believe they would serve our stockholders' long-term interests.

What We Do

Pay for Performance. We tie annual pay to objective absolute and relative performance metrics with a focus on top line growth, bottom line growth and long term value, including our fiscal year 2016 global distribution unit gross sales, net long-term AUM flows, net revenues (total gross revenues less distribution expenses), earnings per share, adjusted income, global distribution unit earnings contribution, relative organic growth rate, relative net income growth and relative one year total stockholder return. We tie performance share unit vesting and payout to relative total stockholder return over a three year period. A significant portion of our executives' potential compensation, ranging from 79-94% depending on the named executive officer, is not guaranteed but is tied to financial and stockholder performance. The Committee and its independent compensation consultant evaluate the alignment of pay and performance relative to our peer group, prior to the Committee making executive compensation determinations.

Total Stockholder Return Metric. Linking executive compensation to stockholder performance is important, so relative total stockholder return is considered in determining annual incentive awards and performance share unit vesting and payouts. Further, stock options and restricted stock units are annually awarded based on performance prior to the award, and the realized value of those awards to the executives is ultimately based on share price performance during the vesting period after the award is made.

Executive Stock Ownership Guidelines. Executives are expected to own shares in Legg Mason common stock with a value equal to at least two to eight times base salary, depending on position.

Equity Award Retention Policy. Executives are required to retain 50% of the net after-tax shares received from all equity awards until they have reached the ownership levels set out in the stock ownership guidelines.

Vesting Period on Equity Awards. Restricted stock units and stock option awards granted under the annual incentive plan have relatively long four year ratable vesting periods.

Clawback Policy. We can recover incentive compensation awarded to a named executive officer where the officer's fraud or willful misconduct led to a material restatement of financial results or if the executive is terminated for cause.

Review Tally Sheets. We review tally sheets which provide a comprehensive view of an executive's historical compensation and equity holdings for each of our executive officers prior to making annual executive compensation decisions.

Stockholder Engagement. We engaged with our top stockholders outside of proxy season to gain insights about their views on helpful disclosures and executive compensation generally, and our practices and outcomes specifically, and to share information that we think might be of interest to stockholders about our compensation and governance practices and policies.

Prohibit Hedging or Pledging. We prohibit our executive officers or directors and their related accounts from engaging in pledging or transactions that have the effect of hedging the market value of Legg Mason securities.

What We Don't Do

No Severance Agreements. We do not provide our named executive officers with employment agreements that provide severance payments, medical or insurance benefits or any other perquisites in the event the executive is terminated or resigns. Severance decisions are made when an executive's employment ends.

No Repricings. Our stock incentive plans and NYSE Listing Standards prohibit us from repricing options without stockholder approval.

No Income Tax Gross-ups. We do not provide income tax gross-ups for personal benefits other than relocation and other broad-based benefits.

No Excise Tax Gross-ups. We do not provide excise tax gross-ups for change in control benefits.

No Established Program of Executive Perquisites. We have no established program of perquisites to provide personal benefits to our executive officers.

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Executive Compensation Program Objectives

OUR COMPENSATION PRINCIPLES

Overall

Our named executive officer compensation programs are designed to attract, incent, 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. We believe that compensation levels should reflect performance-both the performance of Legg Mason and the performance of the recipient.

Variable Pay

A significant portion - 79-94% depending on the named executive officer - of the total direct compensation delivered to our named executive officers is variable, which directly ties their pay to their individual performance and to the performance of our company.

Align management's interests with those of stockholders. We seek to implement programs that will encourage named executive officers to remain with us and to increase long-term stockholder value by providing competitive compensation and granting long-term equity incentive awards each year.

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 named executive officers.

Pay For Performance

Linking compensation to performance is a fundamental value underlying our named executive officer compensation practices. The annual incentives (including the value of annual equity awards) paid to each of our named executive officers vary with performance, including our annual financial results. In addition, a portion of those equity awards is paid in the form of performance share units. The performance share units vest, and the number of shares payable at vesting is determined, based on Legg Mason's relative total stockholder return over the three year period after the awards are made.

The total fiscal year 2016 compensation paid to our Chief Executive Officer reflects our financial results, and the comparison to the compensation amounts paid by and financial results of peer companies in the asset management industry. Although the Board was pleased with our CEO's leadership on strategic accomplishments and his substantial achievements during the fiscal year, his compensation was reduced by 20% for fiscal year 2016 to reflect Legg Mason's financial performance. The fiscal year 2016 total compensation (salary plus incentive award) paid to our CEO ranked below the median when compared to the total compensation paid to chief executive officers at the asset management competitors in the nine public company peer group the Committee uses for CEO compensation comparisons.

The Committee, in consultation with its independent compensation consultant, Semler Brossy Consulting Group, LLC, considers the relationship and alignment between executive compensation for our named executive officers and our corporate performance in reaching executive compensation decisions. This assessment involves consideration of the alignment of Legg Mason's proposed executive compensation with its corporate performance as compared to that of competitor asset management companies. In addition, Semler Brossy conducts pay for performance analyses, at the request of the Committee, that are used as one input for executive compensation decisions.

Determining Executive Compensation

The Committee uses a performance assessment framework as the basis for pay decisions for Legg Mason executives. The Committee uses market data and performance metrics to establish pools for incentive awards, and applies its judgment to make compensation decisions for the named executive officers after conducting an in-depth review of performance, and assessing qualitative factors relating to strategic operating priorities, rather than relying solely on formulaic results to calculate annual incentive award payouts. The Committee believes this process is an effective way to assess the quality of the performance and leadership demonstrated by the CEO and the senior management team. In the asset management industry, executive pay typically is not determined on the basis of formulas and weighted metrics, because the business is highly dependent on markets. The dynamics of markets and other external factors that impact our business during the course of the year make initial weightings less relevant to what management should focus on during the year to deliver maximum stockholder value. Further, our business is based on investment performance. That performance must be viewed over a long period of time. Short term, specific quantitative measures may not correctly drive the behavior for the long term results that we want our executive team to strive for and produce.

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Elements of Compensation

Component	Role	How It's Set/Links to Performance