

LEGG MASON INC  
Form 11-K  
June 25, 2007

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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FORM 11-K

(Mark One):

/X/

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

/\_\_\_/

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-8529

The Legg Mason

Profit Sharing and 401(k) Plan and Trust

(Full title of the plan and the address of the plan,  
if different from that of the issuer named below)

Legg Mason, Inc.

100 Light Street

Baltimore, Maryland 21202

(Name of issuer of the securities held pursuant to the plan  
and the address of its principal executive office)

REQUIRED INFORMATION.

Item 4.

Plan Financial Statements and Schedules prepared in accordance with the financial reporting requirements of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.



**The Legg Mason Profit  
Sharing and 401(k) Plan and  
Trust  
Financial Statements  
December 31, 2006 and 2005**

**The Legg Mason Profit Sharing and 401(k) Plan and Trust**

**Index**

**December 31, 2006 and 2005**

**Page(s)**

**Report of Independent Registered Public Accounting Firm**

5

**Financial Statements**

Statements of Net Assets Available for Plan Benefits

6

Statement of Changes in Net Assets Available for Plan Benefits

7

Notes to Financial Statements

8-15

**Supplemental Schedule\***

Schedule of Assets (Held at End of Year)

16

\*

The other schedules required by 29 CFR 2520.103.10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under ERISA have been omitted, as they are not applicable.

**Report of Independent Registered Public Accounting Firm**

To the Trustees of

The Legg Mason Profit Sharing and 401 (k) Plan and Trust

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of The Legg Mason Profit Sharing and 401 (k) Plan and Trust (the Plan ) at December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baltimore, Maryland

June 15, 2007



**The Legg Mason Profit Sharing and 401(k) Plan and Trust****Statements of Net Assets Available for Plan Benefits****December 31, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash	\$ 991,243	\$ 6,915,117
Investments, at fair value		
Participant-directed investments	556,697,115	751,755,229
Loans to participants	3,409,005	8,519,162
Total investments	560,106,120	760,274,391
Employer contribution receivable	30,557,853	37,866,880
Receivable for investments sold	133,666	560,244
Total assets	591,788,882	805,616,632
<b>Liabilities</b>		
Payable for investments purchased	492,688	24,239
<b>Total assets available for benefits</b>	<b>\$ 591,296,194</b>	<b>\$ 805,592,393</b>

See accompanying notes to the financial statements.

**The Legg Mason Profit Sharing and 401(k) Plan and Trust****Statement of Changes in Net Assets Available for Plan Benefits****Year Ended December 31, 2006****Additions to net assets attributable to**

Contributions		
Employer		\$ 30,557,853
Employee		25,800,530
		56,358,383
Interest and dividend income		26,877,930
Net appreciation in fair value of investments		20,732,872
	Total additions	103,969,185

**Deductions from net assets attributable to**

Benefits paid to participants		40,786,209
	Total deductions	40,786,209
Transfers, net		(277,479,175)
	Net decrease in plan assets	(214,296,199)

**Net assets available for benefits**

Beginning of year		805,592,393
End of year		\$ 591,296,194

See accompanying notes to the financial statements.

## **The Legg Mason Profit Sharing and 401(k) Plan and Trust**

### **Notes to Financial Statements**

**December 31, 2006 and 2005**

#### **1.**

##### **Description of Plan**

The following description of the Legg Mason Profit Sharing and 401(k) Plan and Trust (the Plan ) provides only general information. Participants should refer to the plan agreement for a more complete description of the Plan's provisions.

##### **General**

The Plan is a defined contribution plan which covers substantially all employees of Legg Mason & Co., LLC ("LM & Co"), and affiliated participating companies (the Company ) and is subject to the provisions of the Employee Retirement Income Security Act ( ERISA ). An employee becomes eligible to participate in the Plan on their date of hire. A participant shares in employer contributions and forfeitures by completing 1,000 hours of service, as defined by the Plan, in a Plan year and being employed on the last day of the Plan year.

##### **Contributions**

Contributions by employees are voluntary and may be composed of all or any of the following:

###### **A.**

A rollover of accumulated deductible employee contributions as contemplated by Section 408(d)(3) of the Internal Revenue Code.

###### **B.**

A voluntary compensation deferral whereby the participant may elect to defer, in the form of Company contributions to the Plan on the participant's behalf, compensation that would otherwise have been paid to the participant during the Plan year. This compensation deferral, if elected, cannot be less than 1% nor more than 50% of the compensation that would otherwise have been paid to the participant during the Plan year.

The Company will contribute a matching contribution to all eligible employees equal to 50% of the employee's contribution up to 6% of such employee's annual earnings up to a maximum of \$5,000 per employee annually. Additionally, the Company may make discretionary profit sharing contributions to the Plan. See Note 3 for further disclosure.

### **Participant Accounts**

Each participant's account is credited with the participant's contributions and an allocation of (a) the Company's contributions, (b) Plan earnings/losses, and (c) forfeitures of terminated participants' non-vested accounts. Allocations are based on participant earnings or account balances, as defined in the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

**The Legg Mason Profit Sharing and 401(k) Plan and Trust**

**Notes to Financial Statements**

**December 31, 2006 and 2005**

**Vesting**

Participants are immediately vested in voluntary contributions, rollover contributions, and income earned thereon.

Participants will immediately vest in the Company's matching contribution only if they have met the Plan's requirement. Vesting in the Company's discretionary profit sharing contributions are based on years of continuous service as presented in the following chart:

<b>Years of Service</b>	<b>Percentage Vested</b>
less than 2	0%
2	25%
3	50%
4	75%
5	100%

A participant's account becomes 100% vested in the profit sharing contribution, regardless of years of service, at age 65 or in the event of permanent disability or death.

**Payment of Benefits**

Upon an employee's withdrawal from the Plan or a break in service of more than five years, any non-vested portion of a participant's account is forfeited and is reallocated to participants' accounts in the same proportion as the Company's contribution to the Plan attributable to the Plan year in which the forfeitures occurred.

Participants are entitled to a benefit equal to the vested portion of their account which will be distributed in the form of a lump sum payment unless the participant elects another option as provided by the Plan.

**Loans to Participants**

Participants are eligible to obtain loans from the Plan. Participants can borrow up to 50% of their vested account balance, but not more than \$50,000 less the highest outstanding loan balance during the preceding twelve months. Loan repayment periods range from one to twenty-three years. The loans accrue interest at a rate commensurate with prevailing rates as determined by the Plan. As of December 31, 2006 and 2005, interest rates on these loans ranged from 4.0% to 10.5%. The Company has the authority to deny plan loans to any director or executive officer to the extent necessary to conform to the Sarbanes Oxley Act of 2002. The Company has the right to discontinue the policy of extending loans to participants, however, it may not affect the terms or provisions of any loans outstanding at that time.

### **Administrative Expenses**

The Company pays all of the administration and operations expenses of the Plan.

## **The Legg Mason Profit Sharing and 401(k) Plan and Trust**

### **Notes to Financial Statements**

**December 31, 2006 and 2005**

#### **Plan Changes**

On January 1, 2005, the plan changed record keepers to The 401(k) Company. Participants could not make any changes to their account balances through January 18, 2005.

On December 1, 2005, Legg Mason, Inc. completed the sale of its subsidiary, Legg Mason Wood Walker, Inc. As a result, the Plan Sponsor was changed to LM & Co.

On February 16, 2006, the Legg Mason Cash Reserve Trust Fund was liquidated. The balance in the fund, \$32,457,643, was automatically transferred to the Citi Institutional Reserve Fund Class A, unless otherwise directed by an individual participant.

#### **Transfers**

On December 1, 2005, Legg Mason, Inc. acquired substantially all of Citigroup, Inc.'s worldwide asset management business ("CAM") in exchange for Legg Mason's Private Client and Capital Markets ("PC/CM") business, common and preferred stock and cash. As a result of the exchange, approximately 2,600 PC/CM employees were terminated and may transfer their assets out of the Plan. \$302,830,742 in PC/CM assets were transferred out in 2006. On January 1, 2006, approximately 1,300 CAM employees became eligible to participate in the Plan. In 2006, \$25,351,567 in assets have been rolled into the Plan.

2.

#### **Significant Accounting Policies**

A.

##### **Basis of Accounting**

The financial statements of the Plan are prepared on the accrual basis of accounting.

**B.**

**Investments Valuation and Income Recognition**

Plan investments are stated at fair value. Shares of registered investment companies are reported at their stated net asset value per share and shares of common stock are valued at quoted market prices. Unit values of the common stock fund are based on the quoted market price of common stock held by the fund, along with cash equivalents.

Participant loans are valued at cost plus accrued interest, which approximates fair value. Purchases and sales of securities are reflected on a trade date basis.

Dividend income is recorded on the ex-dividend date. Dividends earned from mutual fund investments and the Legg Mason Common Stock Fund are reinvested into additional shares of those funds. Dividends earned from Legg Mason stock are reallocated to other funds based on current investment elections. Interest income is accrued as earned.

The Plan presents, in the statement of changes in net assets available for plan benefits, the net appreciation in the fair value of its investments, which consists of realized gains and losses, and the change in the unrealized appreciation or depreciation of those investments during the Plan year.



## **The Legg Mason Profit Sharing and 401(k) Plan and Trust**

### **Notes to Financial Statements**

**December 31, 2006 and 2005**

#### **C.**

##### **Contribution**

Employee contributions are recorded in the period during which the Company makes payroll deductions from the Plan participants' earnings. Company contributions are made annually and recorded in the period to which it relates.

#### **D.**

##### **Payment of Benefits**

Benefits are recorded when paid.

#### **E.**

##### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions to and deduction from Plan assets during the reporting period. Actual results could differ from those estimates.

#### **F.**

##### **Risks and Uncertainties**

The Plan provides for investment options in mutual funds. Investment securities held by mutual funds are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect participants' account balances and the amounts reported in the statements of net assets available for plan benefits.

#### **G.**

##### **Investment Options**

Upon enrollment in the Plan, a participant may direct his/her account balance into any of the investment options listed on the schedule of assets (held at end of year).

Participants may change their investment options and transfer amounts between funds daily.

**3.**

**Employer Contribution**

The Company approved discretionary contributions for 2006 and 2005 of \$24,351,958 and \$29,994,934, respectively. The Company made matching contributions aggregating \$6,205,895 in 2006 and \$7,871,946 in 2005. These Company contributions were transferred to the Plan subsequent to December 31 of each year, and accordingly, are included in contributions receivable in the financial statements.

**The Legg Mason Profit Sharing and 401(k) Plan and Trust****Notes to Financial Statements****December 31, 2006 and 2005****4.****Investments**

The following presents investments that represent five percent or more of the Plan's net assets.

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
Legg Mason Value Trust, Institutional Class, 1,768,771 and 2,722,264 shares, respectively	\$ 143,022,807	\$ 205,884,845
Legg Mason Special Investment Trust, Institutional Class, 1,480,705 and 2,209,849 shares, respectively	70,925,776	115,773,970
Legg Mason Opportunity Trust, Institutional Class, 3,075,803 and 4,995,240 shares, respectively	59,916,650	85,018,984
Legg Mason Common Stock Fund, 749,449 and 1,025,434 shares, respectively	35,424,589	60,656,354
American EuroPacific Growth Fund, Class A 671,240 and 801,922 shares respectively	31,252,936	32,958,999

During 2006, the Plan's investments at fair value (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value as follows:

Mutual funds	\$ 30,158,099
Common stock fund	(8,504,325)
Common stock	(920,902)
	<b>\$ 20,732,872</b>

**5.**

**Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2006 and 2005 to Form 5500:

	<b>2006</b>	<b>2005</b>
Net assets available for benefits per the financial statements	\$ 591,296,194	\$ 805,592,393
Amounts allocated to withdrawing participants	(304,044)	(7,350,247)
Net assets available for benefits per Form 5500	\$ 590,992,150	\$ 798,242,146

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 2006 to Form 5500:

	<b>2006</b>
Benefits paid to participants per the financial statements	\$40,786,209
Less: amounts allocated to withdrawing participants at December 31, 2005	(7,350,247)
Add: amounts allocated to withdrawing participants at December 31, 2006	304,044
Benefits paid to participants per Form 5500	\$ 33,740,006

## **The Legg Mason Profit Sharing and 401(k) Plan and Trust**

### **Notes to Financial Statements**

**December 31, 2006 and 2005**

**6.**

#### **Plan Termination**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants would become fully vested in their accounts.

**7.**

#### **Income Tax Status**

The Internal Revenue Service has determined and informed the Company by a letter dated August 31, 2004, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code ( IRC ). Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

**8.**

#### **Forfeitures**

Terminating members of the Plan are paid the current value of the vested balance in their plan account as soon as administratively feasible. Unvested amounts are forfeited and reallocated to continuing participants in the year in which they are forfeited. As of December 31, 2006 and 2005, forfeitures totaled \$636,818 and \$759,233, respectively.

Forfeitures are allocated in subsequent years based on the respective profit sharing allocations. During 2006, \$740,000 in forfeitures were credited to participant accounts and \$590,997 of forfeitures were created.

**9.**

**Other Matters**

The Plan invests in shares of Legg Mason, Inc. common stock which qualifies as a party-in-interest transaction, through two plan alternatives, one of which is a unitized fund consisting primarily of shares of the common stock of Legg Mason, Inc. The other consists of common stock transferred in from an old plan. Sales of 72,213 shares or \$8,737,403 of Legg Mason, Inc. common stock were made during 2006. There were no purchases of Legg Mason, Inc. common stock during 2006. The market value of Legg Mason, Inc. common stock at December 31, 2006 and 2005 was \$3,915,965 (41,199 shares) and \$13,574,270 (113,412 shares), respectively.

Cash balances maintained by the Plan and the Legg Mason, Inc. common stock directly owned by the Plan are held by M&T Bank and Deutsche Bank, respectively, in investment accounts. The shares of common stock held by the unitized Legg Mason Common Stock Fund are held by Deutsche Bank.

**The Legg Mason Profit Sharing and 401(k) Plan and Trust**

**Notes to Financial Statements**

**December 31, 2006 and 2005**

Sales of 620,997 shares or \$35,397,731 and purchases of 345,012 shares or \$18,673,202 of the Legg Mason Common Stock Fund units were made during 2006. The market value of the Legg Mason Common Stock Fund at December 31, 2006 and 2005 was \$35,424,589 (749,449 units) and \$60,656,354 (1,025,434 units), respectively.

Legg Mason Investor Services serves as distributor for the Legg Mason funds held by the Plan. Additionally, certain affiliated participating and non-participating companies act as manager or investment advisor for the Legg Mason funds. The Legg Mason funds in the Plan qualify as a party-in-interest.

**SUPPLEMENTAL SCHEDULE**



**The Legg Mason Profit Sharing and 401(k) Plan and Trust****Schedule of Assets (Held at End of Year)****December 31, 2006****Schedule I**

<b>Identity of Issue, Borrower, Lessor, or Similar Party</b>	<b>Description of Investment</b>	<b>** Cost</b>	<b>No. of Shares</b>	<b>Current Value</b>
Legg Mason American Leading Companies Trust, Institutional Class *	Registered Investment Company		459,270	12,009,903
Legg Mason Balanced Trust, Institutional Class *	Registered Investment Company		54,570	621,552
Citi Institutional Liquid Reserves Fund Class A *	Registered Investment Company		25,468,887	25,468,887
Legg Mason Growth Trust, Institutional Class *	Registered Investment Company		170,129	5,398,198
Legg Mason High Yield Portfolio, Institutional Class *	Registered Investment Company		315,580	2,963,298
Legg Mason International Equity Trust, Institutional Class *	Registered Investment Company		499,098	10,126,700
Legg Mason Investment Grade Income Portfolio, Institutional Class *	Registered Investment Company		271,093	2,841,053
Legg Mason Limited Duration Bond Portfolio, Institutional Class *	Registered Investment Company		516,210	5,275,661
Legg Mason Opportunity Trust, Institutional Class*	Registered Investment Company		3,075,803	59,916,650
Legg Mason Special Investment Trust, Institutional Class *	Registered Investment Company		1,480,705	70,925,776
Legg Mason U.S. Small Cap Value Trust, Institutional Class *	Registered Investment Company		477,719	7,352,099
Legg Mason Value Trust, Institutional Class *	Registered Investment Company		1,768,771	143,022,807
Legg Mason Common Stock *	Common Stock		41,199	3,915,965
Legg Mason Common Stock Fund *	Unitized Fund		749,449	35,424,589
Western Asset Core, Institutional Class *	Registered Investment Company		980,384	10,333,039
	Registered Investment Company		1,320,397	15,276,995

Royce Pennsylvania Mutual Fund, Investment Class*			
North Track ARCAEx Tech 100 Index Fund	Registered Investment Company	101,012	2,542,472
PIMCO Foreign Bond	Registered Investment Company	214,491	2,183,517
PIMCO Total Return	Registered Investment Company	366,966	3,809,103
SSGA S&P 500 Index Fund	Registered Investment Company	580,870	13,528,468
T Rowe Price Small Cap Stock Fund	Registered Investment Company	337,705	11,562,707
Templeton World Advisor Class	Registered Investment Company	1,320,911	25,638,886
American Washington Mutual Investors, R5	Registered Investment Company	387,766	13,513,726
Franklin Small-Mid Cap Growth Advisor Class	Registered Investment Company	204,773	7,853,055
American EuroPacific Growth Fund, R5	Registered Investment Company	671,240	31,252,936
Eaton Vance Income Fund of Boston, Institutional Class	Registered Investment Company	454,877	2,970,348
Dodge and Cox Balanced Fund	Registered Investment Company	129,532	11,279,667
Davis Opportunity Fund Class Y	Registered Investment Company	307,118	8,688,366
American Growth Fund of America, R5	Registered Investment Company	334,775	11,000,692
Participant Loans	Participant loans made to participants or beneficiaries under the plan. Interest rates range from 4.0% to 10.5%		3,409,005
			\$
			560,106,120

\* Denotes a party-in-interest as defined by ERISA.

\*\* Participant driven investments, therefore, no cost basis required.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the plan administrator, who administers the employee benefit plan, has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Date:

June 25, 2007

THE LEGG MASON PROFIT SHARING AND 401(k) PLAN AND TRUST

By:-----

/s/ Joseph E. Timmins III

Joseph E. Timmins III

Plan Administrator



EXHIBIT INDEX

Exhibit No.

Page No.

23.1

Consent of Independent Registered Public Accounting

19

Firm

99.1

Certification of Chief Executive Officer pursuant to

20

18 U.S.C. Section 1350, as adopted pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

99.2

Certification of Chief Financial Officer pursuant to

21

18 U.S.C. Section 1350, as adopted pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002



Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-66891) of Legg Mason, Inc. of our report dated June 15, 2007 relating to the financial statements of the Legg Mason, Inc. Profit Sharing and 401(k) Plan and Trust, which appears in this Form 11-K.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland

June 25, 2007





CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of The Legg Mason Profit Sharing and 401(k) Plan and Trust (the Plan ) on Form 11-K for the period ending December 31, 2006, as filed with the Securities and Exchange Commission (the Report ), I, Raymond A. Mason, Chief Executive Officer of Legg Mason, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1)

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Plan.

/s/ Raymond A. Mason

Raymond A. Mason

Chief Executive Officer

June 25, 2007

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of The Legg Mason Profit Sharing and 401(k) Plan and Trust (the Plan ) on Form 11-K for the period ending December 31, 2006, as filed with the Securities and Exchange Commission (the Report ), I, Charles J. Daley, Jr., Chief Financial Officer of Legg Mason, Inc., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1)

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2)

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Plan.

/s/ Charles J. Daley, Jr.

Charles J. Daley, Jr.

Chief Financial Officer

June 25, 2007