

LEGG MASON INC
Form DEF 14A
June 18, 2003

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 Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to (S)240.14a-11(c) or (S)240.14a-12

LEGG MASON, INC.

(Name of Registrant as Specified In Its Charter)

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

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(1) Amount Previously Paid:

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(3) Filing Party: (4) Date Filed:

Notes:

100 Light Street
Baltimore, Maryland 21202

June 18, 2003

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders which will be held at The Center Club, 100 Light Street, 16th Floor, Baltimore, Maryland at 10:00 a.m. on Tuesday, July 22, 2003. On the following pages you will find the Notice of Annual Meeting and Proxy Statement.

Whether or not you plan to attend the meeting, it is important that your shares be represented and voted at the meeting. Accordingly, please date, sign and return the enclosed proxy card promptly.

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

Sincerely,

RAYMOND A. MASON

Chairman of the Board, President and Chief Executive Officer

LEGG MASON, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Tuesday, July 22, 2003

To the Stockholders of

LEGG MASON, INC.:

The Annual Meeting of Stockholders of Legg Mason, Inc., a Maryland corporation, will be held at The Center Club, 100 Light Street, 16th Floor, Baltimore, Maryland, on Tuesday, July 22, 2003 at 10:00 a.m. to consider and vote upon:

- (1) The election of five directors for the three-year term ending in 2006 and the election of one director for the two-year term ending in 2005; and
- (2) 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 23, 2003 as the date for determining stockholders of record entitled to notice of and to vote at the Annual Meeting.

Your attention is directed to the accompanying Proxy Statement and 2003 Annual Report to Stockholders.

By order of the Board of Directors

ROBERT F. PRICE

Secretary

June 18, 2003

LEGG MASON, INC.

100 Light Street

Baltimore, Maryland 21202

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

Tuesday, July 22, 2003

The enclosed proxy is solicited by the Board of Directors of Legg Mason, Inc. (*Legg Mason*) and may be revoked by the stockholder at any time before it is exercised. The cost of soliciting proxies will be borne by Legg Mason. Proxies will be solicited by mail and may be solicited by Legg Mason's officers, directors and employees personally, by telephone or by any other means of communication. Legg Mason may reimburse brokers, banks, custodians, nominees and other fiduciaries for their reasonable out-of-pocket expenses in forwarding proxy materials to their principals. Legg Mason is sending this proxy material to stockholders on or about June 18, 2003.

Stockholders of record at the close of business on May 23, 2003 are entitled to notice of and to vote at the meeting. As of the close of business on that date, there were outstanding and entitled to vote (i) 65,069,442 shares of Common Stock, \$.10 par value (*Common Stock*), of Legg Mason, each of which is entitled to one vote and (ii) 2,256,745 Exchangeable Shares, no par value (*Exchangeable Shares*), of a Canadian subsidiary of Legg Mason, each of which is exchangeable into, and has voting rights identical to, one share of Common Stock.

Directors are elected by a plurality of the votes cast by the holders of shares of Common Stock and Exchangeable Shares present in person or represented by proxy at the meeting, with a quorum present. Abstentions and broker non-votes do not affect the plurality vote for the election of directors.

ELECTION OF DIRECTORS

Legg Mason's Board of Directors is divided into three classes. Each year one class is elected to serve for a term of three years. The stockholders will vote at this Annual Meeting for

- the election of five directors for the three-year term expiring at the Annual Meeting of Stockholders in 2006; and
- the election of Dennis R. Beresford for the two-year term expiring at the Annual Meeting of Stockholders in 2005. Mr. Beresford was elected as a director by the Board of Directors in September 2002 to fill a vacancy on the Board. To balance the classes, he was assigned to the class whose term expires in 2005. Under Maryland law, Mr. Beresford must be elected by stockholders at this Annual Meeting.

All nominees presently serve as directors.

The persons named in the enclosed proxy will vote for the election of the nominees named below unless authority to vote is withheld. In the event any nominee is unable to serve, the persons named in the proxy may vote for a substitute nominee that they, in their discretion, shall determine. The Board of Directors has no reason to believe that any nominee will be unable to serve.

Nominees for Director for the Term Expiring in 2006

Carl Bildt, age 53, was elected as a director of Legg Mason by the Board of Directors in September 2002. Mr. Bildt holds advisory positions in numerous international organizations, including the Centre for European Reform, the Aspen Institute Italia and RAND Europe. He served as the High Representative for peace negotiations in Bosnia and Herzegovina and as the UN Special Envoy for the Balkans from 1999 through 2001. Mr. Bildt served as Prime Minister of Sweden from 1991-1994.

Harry M. Ford, Jr., age 70, has been a director of Legg Mason since its formation in 1981 and has served as a Senior Vice President of Legg Mason since May 1982. Mr. Ford's principal occupation is as a Financial Advisor with Legg Mason Wood Walker, Incorporated (LMWW), Legg Mason's principal brokerage subsidiary.

John E. Koerner, III, age 60, has been a director of Legg Mason since October 1990. Since August 1995, he has been the managing member of Koerner Capital, LLC, a private investment company, or the President of its predecessor, Koerner Capital Corporation.

Peter F. O Malley, age 64, has been a director of Legg Mason since April 1992. He has been Of Counsel to the law firm of O Malley, Miles, Nylén & Gilmore, P.A. and its predecessor, O Malley & Miles, since 1989. Mr. O Malley currently serves as the President of Aberdeen Creek Corp., a privately-held company engaged in investment, business consulting and development activities, and is a director of Potomac Electric Power Company, Legg Mason Trust, fsb and FTI Consulting.

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James E. Ukrop, age 65, has been a director of Legg Mason since January 1985. Since 1997, he has been the Chairman of the Board of Ukrop Super Markets, Inc., which operates a chain of supermarkets in Virginia, and he was President and Chief Executive Officer of that company from 1975 to 1997. Mr. Ukrop is a director of Owens & Minor, Inc. and Chairman of First Market Bank.

Nominee for Director for the Term Expiring in 2005

Dennis R. Beresford, age 64, was elected as a director of Legg Mason by the Board of Directors in September 2002. He is currently a professor at the University of Georgia, a position he has held

since 1997, and was Chairman of the Financial Accounting Standards Board from 1987 to 1997. Mr. Beresford is a director of National Service Industries, Inc., Kimberly-Clark Corporation and WorldCom, Inc.

Directors Continuing in Office

Directors whose terms will expire in 2004

Harold L. Adams, age 64, has been a director of Legg Mason since January 1988. He has been the Chairman Emeritus of RTKL Associates, Inc., an international architecture, engineering and planning firm, since April 2003, was the Chairman and Chief Executive Officer of that firm from 1987 until April 2003, and was the President of that firm from 1969 through 2000. He is a director of Lincoln Electric Holdings, Inc.

James W. Brinkley, age 66, has been a director of Legg Mason since its formation in 1981 and has served as a Senior Executive Vice President of Legg Mason since December 1983. In November 1985, he became President of LMWW and in February 1998, he also became the Chief Operating Officer of LMWW.

Raymond A. Mason, age 66, has served as Chairman of the Board, President and Chief Executive Officer of Legg Mason since its formation in 1981. He has served as Chairman and Chief Executive Officer of LMWW since 1975.

Kurt L. Schmoke, age 53, has been a director of Legg Mason since January 2002. He has been Dean of the School of Law at Howard University since January 2003. From December 1999 through January 2003, he was a partner in the law firm of Wilmer, Cutler & Pickering. From December 1987 through December 1999, he was Mayor of the City of Baltimore. He is a director of the McGraw-Hill Companies.

Directors whose terms will expire in 2005

Richard J. Himelfarb, age 61, has served as a director of Legg Mason since November 1983. He has been a Senior Executive Vice President of Legg Mason and LMWW since July 1995. He is responsible for supervising the corporate and real estate finance activities of Legg Mason.

Edward I. O'Brien, age 74, has been a director of Legg Mason since February 1993. He is engaged in private investment activities. He has served in an advisory capacity to certain entities in the securities business, having served as a consultant to the Securities Industry Association from December 1992 to November 1993, and as its President from 1974 to December 1992. Mr. O'Brien is a director of a number of mutual funds in the Neuberger & Berman mutual fund complex.

Roger W. Schipke, age 66, has been a director of Legg Mason since January 1991. He has been an executive in residence of the University of Louisville, School of Business and Public Administration since September 2002 and an adjunct professor at the University of Kentucky, Gatton College of Business and Economics since January 2003. Prior to September 2002, he was engaged in private investment activities. Mr. Schipke is a director of Brunswick Corporation and the Rouse Company.

Nicholas J. St. George, age 64, has been a director of Legg Mason since July 1983. He is engaged in private investment activities. He was the Chief Executive Officer of Oakwood Homes Corporation, a manufacturer and retailer of manufactured homes, from 1979 to 1999.

Committees of the Board Board Meetings

The Board of Directors has an Audit Committee and a Compensation Committee. It does not currently have a nominating committee. During the fiscal year ended March 31, 2003, the Board of Directors met five times, the Audit Committee met six times and the Compensation Committee met four times.

The Audit Committee consists of Messrs. St. George (Chairman), Beresford, O'Brien and Schipke, and is primarily concerned with the effectiveness of the audits of Legg Mason by Legg Mason's independent accountants. Its duties include:

- recommending the selection of independent accountants;
- reviewing the scope and results of the audits conducted by them;
- reviewing the activities of Legg Mason's internal auditors;
- reviewing the organization and scope of Legg Mason's internal system of accounting and financial controls; and
- monitoring and reviewing Legg Mason's financial reporting process.

The Compensation Committee consists of Messrs. Koerner (Chairman) and Ukrop, and is responsible for approving the compensation of the senior executive officers of Legg Mason and recommending to the Board the compensation to be paid to non-employee directors. The Compensation Committee also serves as the administrative committee of certain of Legg Mason's employee benefit plans.

Compensation of Directors

Directors who are not employees of Legg Mason receive:

- an annual retainer of \$20,000;
- a fee of \$4,000 for each Board meeting attended; and
- reimbursement of expenses for attendance at meetings.

In addition, committee members receive a fee of \$2,500 for each committee meeting attended, and the chairman of each committee receives an additional annual retainer of \$5,000.

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Under the terms of the Legg Mason, Inc. Stock Option Plan for Non-Employee Directors, Legg Mason grants each non-employee director options to purchase 6,000 shares of Common Stock

- on the date he or she is first elected as a director; and
- on the date of each subsequent Annual Meeting of Stockholders.

All options have an exercise price equal to the fair market value of the Common Stock on the grant date. The options are exercisable immediately upon the grant date and have a ten-year term, subject to earlier termination in the event the recipient ceases to be a director of Legg Mason. During the fiscal year ended March 31, 2003, each of the non-employee directors received an option to purchase 6,000 shares of Common Stock. This stock option plan covers an aggregate of 1,100,000 shares of Common Stock.

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the ownership of Common Stock of Legg Mason as of May 23, 2003 by each director, each executive officer named in the Summary Compensation Table, all executive officers and directors as a group, and each person who, to the best of Legg Mason's knowledge, beneficially owned more than five percent of Legg Mason's outstanding Common Stock.

<u>NAME OF OWNER</u>	<u>COMMON STOCK BENEFICIALLY OWNED(1)(2)</u>	<u>PERCENT OF OUTSTANDING COMMON STOCK(2)(3)</u>
Wellington Management Company, LLP	3,278,914(4)	5.04
Raymond A. Mason	2,013,430(5)	3.07
James W. Brinkley	760,580(6)	1.17
Richard J. Himelfarb	291,419(7)	*
Harry M. Ford, Jr.	144,339	*
James E. Ukrop	137,584	*
Timothy C. Scheve	120,913(8)	*
Thomas P. Mulroy	110,418(9)	*
Joseph A. Sullivan	96,094(10)	*
Peter F. O. Malley	80,384	*
Harold L. Adams	78,732	*
Edward I. O'Brien	66,260	*
John E. Koerner, III	65,390(11)	*
Nicholas J. St. George	64,664	*
Roger W. Schipke	60,328(12)	*
Kurt L. Schmoke	12,000	*
Dennis R. Beresford	7,500	*
Carl Bildt	6,000	*
All executive officers and directors as a group (24 persons)	4,668,976	7.03

* 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 the following number of shares subject to options exercisable within 60 days from May 23, 2003: Mr. Mason 497,285; Mr. Brinkley 73,464; Mr. Himelfarb 60,666; Mr. Ford 28,098; Mr. Ukrop 57,994; Mr. Scheve 48,188; Mr. Mulroy 52,188; Mr. Sullivan 29,600; Mr. O. Malley 51,328; Mr. Adams 57,994; Mr. O'Brien 57,994; Mr. Koerner 57,994; Mr. St. George 35,332; Mr. Schipke 45,996; Mr. Schmoke 12,000; Mr. Beresford 6,000; Mr. Bildt 6,000; and all executive officers and directors as a group 1,336,751. For purposes of determining the percentage of outstanding Common Stock for any person on the table, the above options held by that person are assumed to have been exercised.
- (3) For purposes of determining percentages of outstanding Common Stock, Exchangeable Shares are not included because none are beneficially owned by any director or executive officer or, to Legg Mason's knowledge, Wellington Management Company, LLP.
- (4) Represents shares held by Wellington Management Company, LLP (WMC), 75 State Street, Boston, Massachusetts 02109, in its capacity as investment advisor, which are held of record by clients of WMC. All of the 3,278,914 shares are held with shared dispositive power, 2,949,216 shares are held with shared voting power, and no shares are held with sole voting power. The

number of shares in the preceding information is based upon a Schedule 13G report filed by WMC reporting ownership as of December 31, 2002. The percentages are based on Legg Mason's outstanding Common Stock as of May 23, 2003.

- (5) Does not include 12,600 shares owned by Mr. Mason's wife, as to which Mr. Mason disclaims beneficial ownership. Does not include 300 shares that are held in trusts for Mr. Mason's children, as to which Mr. Mason disclaims beneficial ownership.
- (6) Excludes 7,332 shares owned by a charitable foundation of which Mr. Brinkley is co-trustee.
- (7) Includes 5,464 shares of restricted stock as to which Mr. Himelfarb has voting power, but which are subject to vesting and transfer restrictions.
- (8) Includes 5,895 shares of restricted stock as to which Mr. Scheve has voting power, but which are subject to vesting and transfer restrictions.
- (9) Includes 5,784 shares of restricted stock as to which Mr. Mulroy has voting power, but which are subject to vesting and transfer restrictions.
- (10) Includes 5,238 shares of restricted stock as to which Mr. Sullivan has voting power, but which are subject to vesting and transfer restrictions.
- (11) Includes 2,400 shares owned by Mr. Koerner's children.
- (12) Includes 1,000 shares held in trust of which Mr. Schipke is trustee.

EXECUTIVE COMPENSATION

The following table provides information concerning compensation for the past three fiscal years of Legg Mason's Chief Executive Officer and each of the four other most highly compensated executive officers in fiscal year 2003.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		
		Salary	Bonus(1)	Other Annual Compensation	Restricted		
					Stock Awards(2)	Options Granted(#)	All Other Compensation(3)
Raymond A. Mason Chairman of the Board, President and Chief Executive Officer	2003	\$ 394,171	\$ 7,244,688(4)	\$6,497		20,000	\$ 16,629
	2002	330,000	7,344,688(4)	3,148		350,000	22,905
	2001	327,500	6,650,000	1,993		100,000	28,428
James W. Brinkley Senior Executive Vice President	2003	\$ 297,917	\$ 2,350,000	\$7,683		10,000	\$105,900
	2002	275,004	2,500,000	2,203		20,000	129,804
	2001	272,920	2,950,000	2,085		27,000	145,394
Thomas P. Mulroy Executive Vice President	2003	\$ 249,171	\$ 1,282,500	\$7,379	\$155,900	12,000	\$ 9,000
	2002	240,000	1,440,000	1,931	174,200	20,000	9,150
	2001	238,333	1,350,000	1,843	150,000	18,000	12,731
Timothy C. Scheve Senior Executive Vice President	2003	\$ 249,171	\$ 1,350,000		\$164,100	14,000	\$ 9,000
	2002	240,000	1,372,500		166,000	20,000	9,150
	2001	238,750	1,440,000		160,000	18,000	12,731
Joseph A. Sullivan Senior Vice President	2003	\$ 248,338	\$ 1,350,000	\$6,848	\$164,100	12,000	\$ 11,320
	2002	230,004	1,215,000	1,454	147,000	15,000	10,588
	2001	227,504	900,000	1,420	100,000	15,000	13,856

- Each fiscal year Legg Mason sets aside an executive bonus pool in an amount up to 10% of Legg Mason's pre-tax income for the fiscal year (before deducting the bonuses). The selection of the participants in the pool, the total amount received for bonuses, and the allocation of incentive bonuses among the executive officers of Legg Mason is approved by the Compensation Committee as described in the Compensation Committee Report on Executive Compensation. In addition, when circumstances warrant, the Compensation Committee may grant an executive officer a bonus in addition to that awarded under the bonus pool.
- Awards have been valued for this table using the closing price of Legg Mason Common Stock on the New York Stock Exchange on the grant date of the award. In May 2003, Messrs. Mulroy, Scheve, and Sullivan were granted 2,627, 2,765, and 2,765 shares, respectively, of restricted stock in lieu of receiving a portion of their annual cash bonuses for fiscal 2003. In May 2002, Messrs. Mulroy, Scheve, and Sullivan were granted 3,127, 2,980, and 2,638 shares, respectively, of restricted stock in lieu of receiving a portion of their annual cash bonuses for fiscal 2002. In May 2001, Messrs. Mulroy, Scheve, and Sullivan were granted 3,216, 3,431, and 2,144 shares, respectively, of restricted stock in lieu of receiving a portion of their annual cash bonuses for fiscal 2001. Each of these grants of restricted stock vests in 33% annual increments commencing on May 15 after the year in which the grant is made. As of March 31, 2003, the number and value of shares of restricted stock held by Messrs. Mulroy, Scheve, and Sullivan were 5,271, 5,267 and 4,067 and \$256,909, \$256,714, and \$198,226, respectively. All officers receive the dividends paid on the restricted stock.
- Amounts for fiscal 2003 include \$9,000 for each individual contributed under the Legg Mason Profit Sharing and 401(k) Plan and Trust, and include for Messrs. Mason and Brinkley, respectively, \$7,629 and \$96,900 of commissions earned from securities brokerage activities. Amount for Mr. Sullivan for fiscal 2003 includes \$2,320 in benefits received under the Legg Mason, Inc. Employee Stock Purchase Plan.
- Includes \$844,688 awarded to Mr. Mason as bonuses conditioned upon the proceeds being used to repay a portion of the outstanding principal on a loan made to Mr. Mason in December 1998.

STOCK OPTIONS

The following table summarizes option grants made by Legg Mason during the fiscal year ended March 31, 2003 to the executive officers named in the Summary Compensation Table.

Option Grants in Fiscal 2003

Name	Individual Grants(1)					Grant Date Present Value(2)
	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Share)	Expiration Date		
Raymond A. Mason	20,000	1.39%	\$ 39.46	7/22/2010	\$ 314,256	
James W. Brinkley	10,000	0.70	39.46	7/22/2010	157,128	
Thomas P. Mulroy	12,000	0.84	39.46	7/22/2010	188,554	
Timothy C. Scheve	14,000	0.98	39.46	7/22/2010	219,979	
Joseph A. Sullivan	12,000	0.84	39.46	7/22/2010	188,554	

- (1) Option grants made pursuant to the Legg Mason, Inc. 1996 Equity Incentive Plan. The exercise price of each option granted under the Plan is not less than the fair market value of the Common Stock on the grant date. Options generally are not exercisable during the first year after the date of grant, and thereafter generally become exercisable in cumulative installments of 20% on each anniversary of the date of grant, so that the options are fully exercisable on and after 5 years from the date of grant until the eighth year following that date. In all cases, vesting of options may be accelerated in certain circumstances. Option holders may use previously owned shares to pay all or part of the exercise price.
- (2) The stock options were valued using the Black-Scholes Option Pricing Model. The following assumptions were made for purposes of calculating the Grant Date Present Value: an expected option term of 7 years to exercise, based on the expected period until exercise; a dividend yield of .81%; stock price volatility of 33.56%, based upon the daily Common Stock market price for 7 years prior to the grant date; and a risk-free interest rate of 4.16%. The actual value realized, if any, on stock option exercises will be dependent on overall market conditions and the future performance of Legg Mason and its Common Stock. Legg Mason cannot be certain that the actual value realized will approximate the amount calculated under the valuation model.

The following table summarizes option exercises during the fiscal year ended March 31, 2003 by the executive officers named in the Summary Compensation Table and the value of their unexercised options at March 31, 2003.

**Aggregate Option Exercises During Fiscal 2003
and Value of Options Held at March 31, 2003**

Name	Number	Value	Number of Securities	Value of Unexercised
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	of Shares Acquired on Exercise	Realized(1)	Underlying Unexercised		In-the-Money Options at	
			Options at March 31, 2003		March 31, 2003(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Raymond A. Mason	18,666	\$ 621,858	497,285	326,047	\$ 10,564,625	\$ 771,159
James W. Brinkley	19,332	683,013	73,464	47,200	1,712,691	191,800
Thomas P. Mulroy			52,188	59,812	892,699	465,941
Timothy C. Scheve	20,330	967,537	48,188	61,812	801,019	485,381
Joseph A. Sullivan			29,600	54,012	384,094	465,341

(1) Value realized and value of unexercised options are calculated by determining the difference between the fair market value of the shares underlying the options and the exercise price of the options at exercise or March 31, 2003, respectively.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Legg Mason's executive compensation program is designed to attract, motivate and retain the management talent needed to strengthen Legg Mason's position in the financial services industry and to achieve its business objectives.

Salaries of senior executive officers are set at levels which the Compensation Committee (the Committee) of the Board of Directors believes are competitive with salaries of executives in similar positions at comparable financial services companies. In addition, in determining senior executive compensation, the Committee places substantial emphasis on incentive compensation directly related to short and long-term corporate performance through annual cash bonuses, restricted stock awards and stock option grants. The members of the Committee are non-employee directors.

As is common in the financial services industry, a significant portion of the total cash compensation of Legg Mason's executive officers is paid in the form of bonuses. For example, in fiscal 2003, approximately 95% of the annual cash compensation of Raymond A. Mason, Legg Mason's Chief Executive Officer (CEO), was paid as bonuses. This is intended to maximize the portion of an individual's compensation that is subject to fluctuation each year based upon corporate and individual performance.

The compensation program is structured to recognize each executive's level of responsibility and to reward exceptional individual and corporate performance. The program takes into account both annual operating results and the desirability of providing incentives for future improvement. This includes the ability to implement Legg Mason's business plans as well as to react to unanticipated external factors which can have a significant impact on corporate performance. Compensation decisions for all executives, including the CEO, are based on the same general criteria.

There are three major components of Legg Mason's executive compensation program: base salary; short-term awards; and long-term incentive awards.

Base Salary

A competitive base salary is important in fostering a career orientation among executives consistent with the long-term nature of Legg Mason's business objectives. The Committee determines the salary of the CEO and Legg Mason's other senior executive officers based on its consideration of the CEO's recommendations.

Salaries and salary adjustments are based on the responsibilities, performance and experience of each executive, regular reviews of competitive positioning (comparing Legg Mason's salary structure with that of similar companies) and business performance. While there is no specific weighting of these factors, the responsibilities, performance and experience of each executive and reviews of competitive positioning are the most important considerations.

Raymond A. Mason, Legg Mason's CEO, has more than 40 years of service with Legg Mason. The Committee established his fiscal 2003 salary of \$400,000 based upon competitive positioning and Legg Mason's overall compensation approach of limiting base salary levels and emphasizing incentive compensation.

Short-Term Awards

Short-term awards to executives are based on Legg Mason's fiscal year operating results and the performance and responsibilities of the individual executives. Short-term awards also reflect each executive officer's contributions to the business during the fiscal year.

Legg Mason's Executive Incentive Compensation Plan provides for an executive bonus pool in an amount up to 10% of Legg Mason's pre-tax income (calculated before deduction of the bonuses) for annual awards to the CEO and other key executive officers selected by the Committee. Because the pool amount is based on pre-tax income, the total size of the pool varies with Legg Mason's performance. During the first quarter of the fiscal year the Committee established maximum percentage allocations of the total pool for certain key executive officers. Mr. Mason's maximum percentage allocation for fiscal 2003 was established at 39%. After the end of each fiscal year, the Committee approves specific bonuses from the pool for each participating executive officer, which may not exceed the maximum percentage previously allocated. The pre-established maximum percentage allocation and the specific bonus the CEO and each of the other selected executives receives within the amount determined pursuant to the pre-established percentage allocation is dependent on the executive's level of responsibility, individual performance, corporate performance, initiative, business judgment and management skills.

In addition, when circumstances warrant, the Committee may award an executive officer a bonus that is in addition to the bonus awarded under the bonus pool. These bonuses are awarded based on the same factors used in allocating the bonus pool, and generally are used to reward outstanding performance that the Committee feels warrants a bonus in excess of the maximum percentage allocated to that executive officer from the bonus pool.

In fiscal 2003, the Committee granted Mr. Mason quarterly supplemental bonuses totaling \$844,688 conditioned upon the proceeds being applied to repay a portion of the outstanding principal on a loan from Legg Mason. This was done pursuant to the Committee's decision, when it granted the loan in 1998 as part of a compensation arrangement, to award supplemental bonuses that Mr. Mason would use to repay the loan.

Total bonuses (including restricted stock awards) to the CEO and the four other named executive officers with respect to fiscal 2003 aggregated 4.3% of pre-tax income (before deduction of the bonuses), with 52% of the total bonuses (2.2% of Legg Mason's pre-tax income before deduction of the bonuses) being awarded to Mr. Mason. As discussed below, for certain executive officers, not including Messrs. Mason and Brinkley, the Committee approved the issuance of restricted shares of Common Stock in May 2003 in lieu of paying a portion of their cash bonuses for fiscal 2003. The total bonuses awarded to Mr. Mason for fiscal 2003 reflect his significant personal contributions to Legg Mason and its business, and were based on the Committee's general evaluation of Mr. Mason's overall contribution to Legg Mason's business. Although market conditions made fiscal 2003 a difficult year for companies in the financial services industry, the Committee feels that Mr. Mason did an excellent job in guiding Legg Mason throughout the year. The Committee believes that Mr. Mason's salary and cash bonuses were appropriate in relation to compensation of CEOs of comparable companies, taking into account the size, business results and stock performance of Legg Mason and those companies.

Section 162(m) of the Internal Revenue Code limits deductions for certain annual compensation in excess of \$1,000,000 paid to individuals required to be named in the summary compensation table in proxy statements of public companies. The Committee believes it is important to balance the

effectiveness of executive compensation plans with the materiality of potentially reduced tax deductions. Accordingly, the Committee may authorize payments that may not be fully deductible if the Committee believes it is in the interest of Legg Mason to do so.

Long-Term Incentive Awards

Long-term incentive awards are designed to reinforce the importance of building long-term value for Legg Mason's stockholders. All long-term incentive awards made in fiscal 2003 were made under the stockholder-approved Legg Mason, Inc. 1996 Equity Incentive Plan.

Stock options and restricted shares of Common Stock were the only long-term incentives granted to executive officers for fiscal 2003. The Committee believes that stock option grants focus management's attention on long-term growth in stockholder value and stock price appreciation. Generally, options have a term of up to eight years, are granted at the fair market value of Legg Mason Common Stock on the date of grant, and an initial portion of the options becomes exercisable one year from the date of grant, with the balance becoming exercisable in increments over the ensuing four years. Generally, recipients must remain employed by Legg Mason to exercise their options.

The number of options that the Committee grants to executive officers is based on individual performance and level of responsibility, and is approved by the Committee after considering the recommendations of the CEO. Award levels must be sufficient in size so that executives develop strong incentives to achieve long-term corporate goals.

In order to increase stock ownership of executive officers and further align the incentives of management and stockholders, the Committee granted restricted shares of Common Stock to several executive officers in lieu of paying a portion of their cash bonuses for fiscal 2003 under Legg Mason's Executive Incentive Compensation Plan. In May 2003, each recipient was granted shares that had a fair market value, on the date the Committee approved the grant, equal to the amount of cash bonus that was replaced. One-third of the shares of restricted stock granted vest on each of the first three anniversaries of the grant date. Prior to vesting, the shares may not be transferred and are generally subject to forfeiture in certain circumstances.

In October 2002, the Committee determined to abandon a proposed new long-term incentive program under the Legg Mason, Inc. 1996 Equity Incentive Plan for fiscal 2003 that it had adopted in April 2002. Under that program, certain executive officers would have been granted supplemental bonuses, paid in shares of Common Stock, if Legg Mason's diluted earnings per share in fiscal 2003 exceeded its diluted earnings per share in fiscal 2002 by a specified amount. Mr. Mason did not believe that a supplemental long-term incentive program was appropriate in the current environment and recommended that the program be abandoned. Based on Mr. Mason's recommendation, the Committee decided to abandon this program.

COMPENSATION COMMITTEE

John E. Koerner, III, Chairman

James E. Ukrop

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended March 31, 2003, John E. Koerner, III and James E. Ukrop served on the Compensation Committee. Neither of these individuals has ever been an officer or employee of Legg Mason or any of its subsidiaries and no compensation committee interlocks existed during fiscal 2003 since no Legg Mason executive officers served on the boards of other publicly traded companies.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors assists the Board of Directors in its oversight of the financial reporting of Legg Mason and its subsidiaries by recommending the independent accountants, reviewing the scope and results of the independent accountants' audits, reviewing the activities of Legg Mason's internal auditors and reviewing the organization and scope of Legg Mason's internal system of accounting and financial controls. The Audit Committee is composed of four non-employee directors and operates under a written charter adopted by the Board of Directors. A copy of that charter was included in Legg Mason's 2001 Proxy Statement. The Board of Directors has determined that each member of the Audit Committee is independent and financially literate and, although no members of the Audit Committee are currently professionally engaged in the practice of accounting or auditing, at least one member has accounting or other related financial management expertise, in each case as such qualifications are defined under the current rules of the New York Stock Exchange.

The Audit Committee held six meetings during the fiscal year ended March 31, 2003. The meetings were intended, among other things, to facilitate communication among the Audit Committee, management, internal auditors and Legg Mason's independent accountants. The Audit Committee reviewed with Legg Mason's internal auditors and its independent accountants the overall scope and plans for their respective audits, and discussed with both the internal auditors and the independent auditors the results of their examinations and their evaluations of Legg Mason's internal controls.

Legg Mason's management is responsible for the financial reporting process, including the system of internal controls, and for the preparation, presentation and integrity of consolidated financial statements in accordance with generally accepted accounting principles. Legg Mason's independent accountants are responsible for auditing those financial statements in accordance with generally accepted auditing standards. The Audit Committee monitors and reviews these processes. The members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent accountants.

In this context, the Audit Committee has reviewed and discussed the audited consolidated financial statements of Legg Mason as of and for the fiscal year ended March 31, 2003 with management and Legg Mason's independent accountants. The Audit Committee has also discussed with the independent accountants the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees. Furthermore, the Audit Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with the independent accountants their independence from Legg Mason and its management. When considering the independent accountants' independence, the Audit Committee considered whether their provision of services to Legg Mason beyond those rendered in connection with their audit and review of Legg Mason's consolidated financial statements was compatible with maintaining their independence. The Audit Committee also reviewed, among other things, the amount of fees paid to the independent accountants for audit and non-audit services.

Based on the reviews, reports and discussions described in this Report, and subject to the limitations on the Audit Committee's role and responsibilities referred to above, the Audit Committee has recommended to the Board of Directors that Legg Mason's audited consolidated financial

statements as of and for the fiscal year ended March 31, 2003 be included in Legg Mason's Annual Report on Form 10-K.

AUDIT COMMITTEE

Nicholas J. St. George, Chairman

Dennis R. Beresford*

Edward I. O'Brien

Roger W. Schipke

*Joined the Audit Committee in September 2002.

STOCK PERFORMANCE GRAPH

The graph below compares the cumulative total stockholder return on Legg Mason's Common Stock for the last five fiscal years with the cumulative total return of the S&P 500 Stock Index and the SNL Securities and Investments Index (the SNL Securities Index) over the same period (assuming the investment of \$100 in each on March 31, 1998, and the reinvestment of all dividends). The SNL Securities Index consists of 81 publicly held broker dealer and investment adviser firms.

	Fiscal Year Ended March 31,					
	1998	1999	2000	2001	2002	2003
Legg Mason	\$ 100	\$ 115	\$ 148	\$ 146	\$ 185	\$ 171
S&P 500 Stock Index	100	118	140	109	110	82
SNL Securities Index	100	133	185	142	151	105

Source: SNL Financial

CERTAIN TRANSACTIONS

On December 8, 1998, Legg Mason loaned to Raymond A. Mason, Legg Mason's Chairman of the Board, President and Chief Executive Officer, \$3,378,750 to finance the purchase of 120,000 shares of Common Stock from Legg Mason. The loan is full recourse, is secured by a pledge of the shares, and accrues interest at a rate of 4.47% per annum, compounded semi-annually. The principal amount is due in full at maturity on June 8, 2006 and interest payments are due on June 8 of each year. As of May 31, 2003, the amount of indebtedness outstanding under this loan was \$1,689,375, plus accrued interest. The largest amount of indebtedness outstanding under this loan at any time during fiscal 2003 was \$2,534,062, plus accrued interest.

During fiscal 2003, Legg Mason paid approximately \$388,000 to Wilmer, Cutler & Pickering, a law firm, for legal services and related expenses. Kurt L. Schmoke, a partner in that law firm until January 2003, is a director of Legg Mason.

In the ordinary course of its business, Legg Mason has extended credit to certain of its directors and executive officers in connection with their purchases of securities in margin accounts. Extensions of credit have been made on terms comparable to loans to unaffiliated customers and did not involve more than the normal risk of collectability or present other unfavorable features. No such extension has resulted in a loss to Legg Mason. Subsequent to the enactment of the Sarbanes-Oxley Act of 2002, Legg Mason has made no new margin loans to directors or executive officers who are not employees of LMWW and has not permitted increases in any margin loans to directors or executive officers who are not employees of LMWW.

INDEPENDENT ACCOUNTANTS

The Board of Directors has re-appointed PricewaterhouseCoopers LLP to be the independent accountants of Legg Mason for the fiscal year ending March 31, 2004. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

Audit Fees

The aggregate fees billed by PricewaterhouseCoopers LLP for professional services rendered for the audit of Legg Mason and affiliates' annual financial statements for the fiscal year ended March 31, 2003 and for the reviews of the financial statements included in Legg Mason's Quarterly Reports on Form 10-Q for that fiscal year were \$1,490,000.

Financial Information Systems Design and Implementation Fees

No fees were billed by PricewaterhouseCoopers LLP for the fiscal year ended March 31, 2003 for professional services rendered for information technology services relating to financial information systems design and implementation.

All Other Fees

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The aggregate fees billed by PricewaterhouseCoopers LLP for services rendered to Legg Mason, other than the services described above under Audit Fees and Financial Information Systems Design and Implementation Fees and excluding services rendered to Legg Mason-sponsored mutual

funds, for the fiscal year ended March 31, 2003 were approximately \$650,000. Of this amount, approximately \$400,000 was paid for tax-related services.

STOCKHOLDER PROPOSALS FOR 2004 ANNUAL MEETING

Legg Mason must receive in writing at its principal executive offices located at 100 Light Street, Baltimore, Maryland 21202 any stockholder proposal intended for inclusion in the proxy material for the 2004 Annual Meeting on or before February 18, 2004. The inclusion of any proposal will be subject to applicable rules of the Securities and Exchange Commission. The persons named as proxies for the 2004 Annual Meeting will generally have discretionary authority to vote on any matter presented by a stockholder for action at the meeting. In the event Legg Mason receives notice of any stockholder proposal by May 4, 2004, then, if Legg Mason includes in its proxy statement advice on the nature of the matter and how the named proxies intend to vote the shares for which they have received discretionary authority, those proxies may exercise discretionary authority with respect to such matter, except to the extent limited by the Securities and Exchange Commission's rules governing stockholder proposals.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Pursuant to Section 16(a) of the Securities Exchange Act of 1934 and the rules thereunder, Legg Mason's executive officers and directors are required to file with the Securities and Exchange Commission and the New York Stock Exchange reports of their ownership of Common Stock. Based solely on a review of copies of such reports furnished to Legg Mason, or written representations that no reports were required, Legg Mason believes that during the fiscal year ended March 31, 2003 its executive officers and directors complied with the Section 16(a) requirements except that (1) Mr. O Malley reported the exercise of options to purchase 3,332 shares of Common Stock, which occurred on May 17, 2002, on a Form 4 report filed on August 22, 2002; (2) Mr. Ford reported the acquisition of 5,000 phantom stock units acquired under the Legg Mason Wood Walker, Incorporated Private Client Group Deferred Compensation Plan, which occurred on April 23, 2002, on a Form 4 report filed on August 12, 2002; (3) Mr. Schipke reported the exercise of options to purchase 300 shares of Common Stock, which occurred on June 3, 2002, on a Form 5 report filed on May 27, 2003; (4) Mr. Adams reported the payment of the exercise price in a stock option exercise that occurred on July 6, 1999 with 408 shares of Common Stock on an amended Form 4 report filed on June 4, 2003; and (5) Mr. Bilson reported the acquisition of 753.1123 phantom stock units acquired throughout the fiscal year under the Legg Mason Wood Walker, Incorporated Deferred Compensation Phantom Stock Plan on a Form 5 report filed on June 13, 2003.

OTHER MATTERS

The Board of Directors of Legg Mason is not aware of any other matters to come before the meeting. If any other matters should come before the meeting, the persons named in the enclosed proxy will act thereon according to their best judgment.

By order of the Board of Directors

ROBERT F. PRICE

Secretary

LEGG MASON, INC.

Proxy for Annual Meeting of Stockholders, July 22, 2003

The undersigned hereby appoints Raymond A. Mason, Robert F. Price and Timothy C. Scheve, and each of them, as proxy, with full power of substitution, to vote all shares which the undersigned is entitled to vote at the Annual Meeting of Stockholders of Legg Mason, Inc., on July 22, 2003 at 10:00 a.m., and at any adjournment thereof.

The Board of Directors recommends a vote FOR the item below.

1. **FOR** **WITHHOLD** The election of all Nominees for the Board of Directors listed (except as marked to the contrary):

Nominees for the term expiring at the 2006 annual meeting

Carl Bildt Harry M. Ford, Jr. John E. Koerner, III Peter F. O. Malley James E. Ukrop

Nominee for the term expiring at the 2005 annual meeting

Dennis R. Beresford

(To withhold authority to vote for any individual nominee strike a line through the nominee's name)

2. To act upon any other matter which may properly come before the meeting or any adjournment thereof.

This proxy will be voted on the foregoing item as specified by the person signing it, but if no specification is made the proxy will be voted FOR the election of Directors.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

IT MAY BE REVOKED PRIOR TO ITS EXERCISE.

Receipt of notice of the meeting, proxy statement and 2003 annual report is hereby acknowledged, and the terms of the notice and statement are hereby incorporated by reference into this proxy. The undersigned hereby revokes all proxies heretofore given for said meeting or any adjournment or adjournments thereof.

Dated _____ 2003

(SEAL)

(SEAL)

Please date and then sign exactly as name appears to the left. If signing for a trust, estate, corporation or other legal entity, capacity or title should be stated. If shares are jointly owned, both owners should sign.

PLEASE DATE AND SIGN THIS PROXY AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.