EDWARDS A G INC
Form 10-K
May 09, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended February 28, 2005

Commission file number 1-8527

State of Incorporation: DELAWARE I.R.S. Employer Identification No.: 43-1288229
One North Jefferson Avenue, St. Louis, Missouri 63103
Registrant s telephone number, including area code: (314) 955-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, $1 PAR VALUE	NEW YORK STOCK EXCHANGE
RIGHTS TO PURCHASE COMMON STOCK	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No __.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No __.

The aggregate market value of the voting and non voting common equity held by non affiliates computed by reference to the price at which the common equity was last sold was approximately $2.7 billion as of August 31, 2004.

At May 2, 2005, there were 77,009,770 shares of A.G. Edwards, Inc. common stock, $1 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the A.G. Edwards, Inc. Proxy Statement filed with the Securities and Exchange Commission (SEC) in connection with the Company s Annual Meeting of Stockholders to be held June 23, 2005, (the Company s 2005 Proxy Statement) are incorporated by reference into Part III hereof, as indicated. Other documents incorporated by reference in this report are listed in the Exhibit Index of this Form 10-K.

A.G. EDWARDS, INC.

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PART I

ITEM 1. BUSINESS.

(a) General Development of Business

A.G. Edwards, Inc., a Delaware corporation, is a financial services holding company incorporated in 1983 whose principal subsidiary, A.G. Edwards & Sons, Inc. (Edwards), is the successor to a partnership founded in 1887. A.G. Edwards, Inc. and its directly owned and indirectly owned subsidiaries (collectively referred to as the Company) provide securities and commodities brokerage, investment banking, trust, asset management, financial and retirement planning, insurance products, and other related financial services to individual, corporate, governmental, municipal and institutional clients through one of the industry s largest retail branch distribution systems. At February 28, 2005, the Company had more than 700 locations in 49 states, the District of Columbia, London, England, and Geneva, Switzerland and nearly 15,400 full-time employees, including 6,890 financial consultants providing services for approximately 3,600,000 clients.

Edwards is a securities broker-dealer whose business, primarily with individual clients, is conducted through one of the largest retail branch office networks (based upon number of offices and financial consultants) in the United States. No single client accounts for a significant portion of Edwards business. Edwards is a member of all major securities exchanges in the United States, the National Association of Securities Dealers, Inc. (NASD) and the Securities Investor Protection Corporation (SIPC). In addition, Edwards has memberships on several domestic commodity exchanges and is registered with the Commodity Futures Trading Commission (CFTC) as a futures commission merchant (FCM).

A.G. Edwards Trust Company FSB (Trust Company) is a federally chartered savings bank that provides investment advisory, portfolio management and trust services. A.G. Edwards & Sons (U.K.) Limited is a securities broker-dealer located in London, England, with an office located in Geneva, Switzerland. A.G. Edwards Capital, Inc. serves as general partner to four private equity partnerships formed to invest in portfolios of venture capital and buy out funds and direct investments. A.G. Edwards Technology Group, Inc. provides information technology services to the Company. Beaumont Insurance Company is a Vermont captive insurance company that centralizes certain risk management functions and provides access to reinsurance markets.

(b) Financial Information About Industry Segments

The Company operates and is managed as a single business segment providing investment services to its clients. These services are provided using the same sales and distribution personnel, support services and facilities, and all are provided to meet the needs of its clients. The Company does not identify or manage assets, revenues or expenses resulting from any service, or class of services, as a separate business segment.

(c) Narrative Description of Business

The total amount of revenue by class of products or services that accounted for 10% or more of consolidated net revenues are set forth under Item 6 of this Form 10-K under the caption Consolidated Five-Year Summary.

Commissions

Commission revenue represents the most significant source of revenue for the Company, accounting for approximately 40% of total revenue each of the last five years. The following briefly describes the Company s sources of commission revenue.

Listed and Over-the-Counter Securities. A significant portion of the Company s net revenue is derived from commissions generated on securities transactions executed by Edwards, as a broker, in common and preferred stocks and debt instruments on exchanges or in the over-the-counter markets. Edwards brokerage clients are primarily individual investors; however, resources continue to be directed to further the development of its institutional business. Edwards commission rates for brokerage transactions vary with the size and complexity of the transactions, among other factors.

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Options. Edwards acts as broker in the purchase and sale of option contracts to buy or sell securities, primarily common stocks and stock indexes. Edwards holds memberships for trading on many of the principal option exchanges.

Mutual Funds. Edwards distributes mutual fund shares in continuous offerings of open-end funds. Income from the sale of mutual funds is derived significantly from the standard dealer s discount, which varies as a percentage of the client s purchase price depending on the size of the transaction and terms of the selling agreement. Revenues derived from mutual fund sales continue to be a significant portion of net revenues. Edwards does not sponsor its own mutual fund products.

Commodities and Financial Futures. Edwards acts as broker in the purchase and sale of commodity futures contracts, financial futures contracts, and options on commodity and financial futures contracts. These contracts cover agricultural products, precious metals, currency, interest rate and stock index futures.

Insurance. As agent for several unaffiliated life insurance companies, Edwards distributes life insurance and tax-deferred annuities.

Asset Management and Service Fees

Asset management and service fee revenues consist primarily of revenues earned for providing support and services in connection with assets under third-party management, including mutual funds, managed futures funds, money market funds, annuities and insurance contracts, as well as revenues from assets under management by Edwards. These revenues include fees based on the amount of client assets under management and transaction-related fees as well as fees related to the administration of custodial and other specialty accounts.

The Company manages client assets through the Trust Company and through Edwards asset management service. The Company offers a fee-based transaction account, known as Client Choice, and a non discretionary advisory program, known as Portfolio Advisor. The Company also offers fee-based fund advisory programs that allow clients to select from recommended, established asset allocation models or customize their own models in certain programs. The fund advisory programs are known individually as AGE Allocation Advisors, AGE Pathways, AGE Professional Fund Advisor and AGE Mutual Fund Marketplace. Additionally, the Company offers separately managed accounts, known as Private Advisor Service and Select Advisor, to provide clients access to third-party investment management and related consulting services in addition to Edwards asset management service.

Edwards offers the UltraAsset Account, Total Asset Account® and the Cash Convenience Account, which combine a full-service brokerage account with a money market fund. These programs provide for the automatic investment of customer free credit balances in one of several money market funds. Interest is not paid on uninvested credit balances held in client accounts. In addition, the UltraAsset and Total Asset Accounts allow clients access to their margin and money market accounts through the use of debit cards and checking account services provided by an unaffiliated major bank. The UltraAsset Account offers additional advanced features and special investment portfolio reports. Clients are provided the opportunity to apply for an A.G. Edwards credit card provided by an unaffiliated major bank.

Edwards also provides custodial services to its clients for the various types of self-directed individual retirement accounts as provided under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code).

Principal Transactions

Client transactions in the equity and fixed-income over-the-counter markets may be effected by Edwards acting as principal or as agent. Principal transactions, including market making, require maintaining inventories of securities to satisfy customer order flow. These securities are valued in the Company s consolidated financial statements at fair value, and unrealized gains or losses are included in the Company s results of operations.

Investment Banking

Edwards is an underwriter for public offerings of corporate and municipal securities as well as corporate and municipal unit investment trusts and closed-end investment companies. Edwards public finance activities include areas of specialization for municipal and governmental entities in primary and secondary schools, sports and

entertainment, municipal finance, housing, higher education, health care, and public utilities. Corporate finance activities are focused on three industry groups: financial institutions and real estate, energy, and emerging growth. As an underwriter, usually in conjunction with other broker-dealers, Edwards purchases securities for resale to its clients. Edwards acts as an advisor to corporations and municipal entities in reviewing capital needs and determining the most advantageous means for raising capital. It also advises clients in merger and acquisition activities and acts as agent in private placements.

Margin Financing

Securities transactions are executed on a cash or margin basis. In margin transactions, Edwards extends credit to its clients for a portion of the purchase price, and the clients securities are held as collateral. The amount of credit is limited by the initial margin regulations issued by the Board of Governors of the Federal Reserve System. The current prescribed minimum initial margin for equity securities is equal to 50% of the value of equity securities purchased. The regulations of the various exchanges require minimum maintenance margins, which are below the initial margin. Edwards maintenance requirements generally exceed the exchanges requirements. Such requirements are intended to reduce the risk that a market decline will reduce the value of the collateral below that of the client s indebtedness before the collateral can be liquidated.

Edwards utilizes a variety of sources to finance client margin accounts, including its stockholders equity, customer free credit balances and, to the extent permitted by regulations, cash received from loans of the clients collateral securities to other brokers and borrowings from banks, either unsecured or secured by the clients collateral securities.

Private Client Services

Edwards Private Client Services group assists individuals and businesses with a wide range of financial and investment needs. Individual investors can receive tailored asset allocation; tax- and risk-reduction strategies; portfolio reviews of stocks, bonds and mutual funds (including concentrated equity strategies); and comprehensive financial and estate planning recommendations. Closely held and publicly traded business clients can access services for business insurance, employee benefit programs (retirement plans and key employee compensation), and management and ownership succession.

Investment Activities

The Company s investment activities primarily include investing in equity and equity-related securities in connection with private investment transactions, either for the accounts of Company-sponsored private equity partnerships or for its own account. These activities include mutual fund investments, including those made in connection with its deferred compensation plan, venture capital investments, and investments in portfolio and operating companies. A.G. Edwards Capital, Inc. is a general partner to the Company-sponsored private equity partnerships and provides them with investment advisory and administrative services. The fair value of these investments is subject to a higher degree of volatility and may include significant risks of loss while attempting to obtain higher returns than those available from publicly traded securities.

Research

Edwards provides both technical market and fundamental analysis of numerous industries and individual securities for use by its financial consultants and clients. In addition, review and analysis of general economic conditions, along with asset allocation recommendations, are available. These services are provided by Edwards research analysts, economists and market strategists.

Competition

All aspects of the Company s business are highly competitive. In addition to continued competition from firms traditionally engaged in the investment services business, there has been increased competition in recent years from other sources such as commercial banks, insurance companies, online service providers, mutual fund sponsors and other companies offering investment services both in the United States and globally for a similar client base, including the client base served by the Company.

Regulation

Edwards, as a broker-dealer and a FCM, is subject to various federal and state laws that specifically regulate its activities as a broker-dealer in securities and commodities, as an investment advisor, and as an insurance agent. Edwards is also subject to various regulatory requirements imposed by the securities and commodities exchanges and the NASD. The primary purpose of these requirements is to enhance the protection of customer assets. Under certain circumstances, these rules may limit the ability of the Company to make withdrawals of capital from Edwards. These laws and regulatory requirements generally subject Edwards to standards of solvency with respect to capital requirements, financial reporting requirements, approval of qualifications of personnel engaged in various aspects of its business, record-keeping and business practices, the handling of its clients funds resulting from securities and commodities transactions, and the extension of credit to clients on margin transactions. Infractions of these rules and regulations may include suspension or monetary penalties against individual employees or their supervisors, termination of employees and limitations on certain aspects of Edwards regulated businesses, as well as censures and fines or proceedings of a civil or criminal nature that could result in a temporary or permanent suspension of a part or all of Edwards activities.

As a registered broker-dealer, Edwards is subject to net capital rules administered by the SEC and the New York Stock Exchange (NYSE). Under such rules, this subsidiary must maintain net capital of not less than 2 percent of aggregate debit items, as defined, arising from customer transactions and would be restricted from expanding its business or paying cash dividends or advancing loans to affiliates if its net capital were less than 5 percent of such items. These rules also require Edwards to notify and sometimes obtain approval of the SEC and other regulatory organizations for substantial withdrawals of capital or loans to affiliates. At February 28, 2005, Edwards net capital of $666 million was 30 percent of aggregate debit items and $623 million in excess of the minimum required.

Certain other subsidiaries are also subject to minimum capital requirements that may restrict the payment of cash dividends and advances to the Company. The only restriction with regard to the payment of cash dividends by the Company is its ability to obtain cash through dividends and advances from its subsidiaries or borrowings, if needed. See Note 7 (Net Capital Requirements) of the Notes to Consolidated Financial Statements.

Broker-dealers are also subject to other regulations covering the operations of their business, including sales and trading practices; use of client funds and securities; and the conduct of directors, officers and employees. Broker-dealers are also subject to regulation by state securities administrators in those states where they do business. Violations of the regulations governing the actions of a broker-dealer can result in the revocation of broker-dealer licenses; the imposition of censures or fines; the issuance of cease and desist orders; and the suspension or expulsion from the securities business of a firm, its officers or its employees. The SEC and the national securities exchanges emphasize in particular the need for supervision and control by broker-dealers of their employees.

A.G. Edwards & Sons (U.K.) Limited is registered under the laws of the United Kingdom and is regulated as a securities broker-dealer by the Financial Services Authority. The Trust Company, a federally chartered savings bank, is regulated by the Office of Thrift Supervision, the Federal Deposit Insurance Corporation and by the SEC as an investment advisor. A.G. Edwards Capital, Inc. is registered with the SEC as an investment advisor. Beaumont Insurance Company is regulated by the Vermont Department of Banking, Insurance, Securities and Health Care Administration.

(d) Financial information about geographic areas

Revenues from the Company s non-U.S. operations are currently not material. See Note 13 (Enterprise Wide Disclosure) of the Notes to Consolidated Financial Statements.

(e) Available information

The Company files annual, quarterly and current reports, proxy statements and other information with the SEC.

The public may read and copy the Company s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of

the Public Reference Room by calling the SEC at 1-800-SEC-0330. This information may also be obtained from the SEC s Web site at *www.sec.gov.*

The Company makes available free of charge its most recent annual report on Form 10-K, its quarterly reports on Form 10-Q for the current fiscal year, its recent current reports on Form 8-K (and amendments to these reports), its most recent proxy statement and its most recent summary annual report to shareholders, among other SEC filings, on its Web site at *www.agedwards.com.* In some cases, these documents may not be available on the Company s Web site as soon as they are available on the SEC s Web site.

ITEM 2. PROPERTIES.

The Company s headquarters are located at One North Jefferson Avenue, St. Louis, Missouri, 63103. It consists of several buildings owned by the Company, which contain approximately 2,600,000 square feet of general office space as well as underground and surface parking and two parking garages. In addition, the Company owns one additional office building in the St. Louis area, which is used for information technology and contingency planning facilities. The Company s branch offices total more than 700 and, with a few exceptions, occupy leased premises throughout the United States as well as leased offices in London, England, and Geneva, Switzerland.

ITEM 3. LEGAL PROCEEDINGS.

(a) Litigation

The Company is a defendant in a number of lawsuits, in some of which plaintiffs claim substantial amounts, relating primarily to its securities and commodities business. Management has determined that it is likely that ultimate resolution in favor of the plaintiffs will result in losses to the Company on certain of these claims and as a result, establishes accruals for potential litigation losses. The Company also is involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies, certain of which may result in adverse judgments, fines or penalties. Factors considered by management in estimating the Company s reserves for these matters are the loss and damages sought by the plaintiffs, the merits of the claims, the total cost of defending the litigation, the likelihood of a successful defense against the claims, and the potential for fines and penalties from regulatory agencies. Management, based on its understanding of the facts, reasonably estimates a range of loss and accrues what it considers appropriate to reserve against probable loss for certain claims and regulatory matters. While results of litigation and investigations and proceedings by governmental and self-regulatory agencies or the results of judgments, fines or penalties cannot be predicted with certainty, management, after consultation with counsel believes that resolution of all such matters will not have a material adverse effect on the consolidated balance sheets, statements of earnings or statements of cash flows of the Company, except that, as stated under Mutual Fund Matters (included under Item 7 of this Form 10-K), the Company believes, based on current knowledge and after consulting with counsel, that the impact of the matters discussed under Mutual Fund Matters will not be material to the consolidated financial condition of the Company, but could be material to the operating results in one or more periods.

(b) Proceedings Terminated During the Fourth Quarter of the Fiscal Year Covered by This Report

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year ended February 28, 2005.

Executive Officers of the Company

The following table sets forth the executive officers of the Company as of May 1, 2005. Executive officers are appointed by the Board of Directors to hold office until their successors are appointed and qualified.

Name	Age	Office and Title	Year First Appointed Executive Officer of the Company
Robert L. Bagby	61	Chairman of the Board and Chief Executive Officer of the Company and Edwards since 2001. Vice Chairman of the Board, Executive Vice President and Director of the Branch Division of Edwards prior to 2001. Employee of Edwards for 30 years. Director of Edwards since 1979.	1991
Ronald J. Kessler	57	Vice Chairman of the Board of the Company and Edwards since 2001. Executive Vice President of Edwards. Director of the Operations Division of Edwards. Employee of Edwards for 37 years. Director of Edwards since 1989.	1996

Name	Age	Office and Title	Year First Appointed Executive Officer of the Company
Mary V. Atkin	50	Director of the Staff Division of Edwards since March 2005. Executive Vice President of Edwards since 2001. Director of Corporate Strategy from November 2003 to February 2005. President of A.G. Edwards Technology Group, Inc. from 2001 to 2003. Employee of Edwards for 27 years. Director of Edwards since 1993.	1999
Gene M. Diederich	46	Executive Vice President of Edwards since February 2005. Director of the Branch Division of Edwards since March 2005. Regional Manager of Edwards from 2002 to 2005. Branch Manager of Edwards from 1996 to 2002. Employee of Edwards for 21 years. Director of Edwards since 2003.	2005
Charles J. Galli	64	Senior Vice President and Regional Manager of Edwards. Employee of Edwards for 26 years. Director of Edwards since 1990.	2001
Alfred E. Goldman	71	Corporate Vice President, Director of Market Analysis of Edwards. Employee of Edwards for 45 years. Director of Edwards since 1967.	1991
Richard F. Grabish	56	Chairman and Chief Executive Officer of A.G. Edwards Trust Company FSB since 2001. President of A.G. Edwards Trust Company FSB from 1987 to 2001. Senior Vice President of Edwards. Assistant Director of Sales and Marketing Division of Edwards. Employee of Edwards for 24 years. Director of Edwards since 1988.	2001

Name	Age	Office and Title	Year First Appointed Executive Officer of the Company
Douglas L. Kelly	56	Vice President, Secretary of the Company, Chief Financial Officer and Treasurer of the Company since 2001. Executive Vice President, Secretary, Director of the Law and Compliance Division of Edwards, Chief Financial Officer, and Treasurer and Director of the Administration Division of Edwards since 2001. Employee of Edwards for 11 years. Director of Edwards since 1994.	1994
Thomas H. Martin Jr.	45	Assistant Treasurer of the Company. Vice President of the Company since 2002. Controller of the Company and Edwards. Vice President of Edwards. Employee of Edwards for 24 years.	1999
Peter M. Miller	47	Executive Vice President and Director of the Sales and Marketing Division of Edwards since 2002. Regional Manager of Edwards from 1995 to 2002. Employee of Edwards for 16 years. Director of Edwards since 1997.	2002
John C. Parker	45	Executive Vice President of Edwards. Director and President of the A.G. Edwards Technology Group, Inc. of Edwards since November 2003. Senior Vice President of the A.G. Edwards Technology Group, Inc. of Edwards from 2001 to 2003. Employee of Edwards for more than three years. Employed as Vice President of Information Services for Northwest Airlines from 1999 to 2001 and with Delta Airlines for 17 years in various positions. Director of Edwards since 2002.	2003
Paul F. Pautler	59	Executive Vice President and Director of the Capital Markets Division of Edwards since 2000. Director of Corporate Finance of Edwards from 1999 to 2001. Employee of Edwards for seven years. Director of Edwards since 2000.	2000
Joseph G. Porter	44	Assistant Treasurer of the Company. Vice President of the Company since 2002. Principal Accounting Officer of the Company and Edwards. Senior Vice President and Assistant Director of the Administration Division of Edwards. Employee of Edwards for 22 years. Director of Edwards since 2001.	1999

PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Quarterly Financial Information (Unaudited)

	Dividends Declared per Share	Stock Price Trading Range High	Low	Net Revenues (In millions)	Earnings Before Tax (In millions)	Net Earnings (In millions)	Earnings Per Share Diluted	Basic
Fiscal 2005 by Quarter								
First	$0.16	$40.50	$34.40	$665.9	$73.3	$46.3	$0.57	$0.58
Second	$0.16	$37.46	$31.09	$614.3	$63.1	$40.6	$0.52	$0.52
Third	$0.16	$39.74	$33.46	$638.0	$77.9	$49.2	$0.63	$0.64
Fourth	$0.16	$44.09	$39.10	$689.5	$80.1	$50.4	$0.65	$0.66
Fiscal 2004 by Quarter								
First	$0.16	$33.00	$23.00	$557.9	$43.3	$27.9	$0.35	$0.35
Second	$0.16	$38.99	$32.51	$638.8	$57.4	$37.5	$0.46	$0.47
Third	$0.16	$41.80	$34.72	$629.3	$60.8	$39.7	$0.49	$0.49
Fourth	$0.16	$40.21	$33.74	$696.8	$83.7	$54.4	$0.67	$0.68

Issuer Purchases of Equity Securities

The following table presents the number of shares purchased monthly under the Company s stock repurchase program for the three-month period ended February 28, 2005.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Plans
December (12/1/04 12/31/04)	145,454	$40.31	145,454	9,975,764
January (1/1/05 1/31/05)	166,480	$41.92	166,480	9,809,284
February (2/1/05 2/28/05)	146,429	$42.94	146,429	9,662,855
Total	458,363	$41.74	458,363	

In November 2002, the Board of Directors authorized the repurchase of up to 10,000,000 shares of the Company s outstanding common stock during the period January 1, 2003, through December 31, 2004. This repurchase program was completed December 3, 2004.

In November 2004, the Board of Directors authorized the repurchase of up to 10,000,000 shares of the Company s outstanding common stock during the period November 19, 2004 through December 31, 2006.

Stock Issuance

On July 2, 2004 and pursuant to the terms of the A.G. Edwards, Inc. Non Employee Director Stock Compensation Plan (the Plan), the Company issued a total of 4,529 shares of unregistered Company common stock to the Company s non employee directors equal to one-half of such directors annual compensation (as defined in such Plan). The issuance of these unregistered shares qualifies as an exempt transaction pursuant to Section 4(2) of the Securities Act of 1933.

Annual Meeting

The 2005 Annual Meeting of Stockholders (the Annual Meeting) will be held at the Company s headquarters, One North Jefferson Avenue, St. Louis, Missouri, 63103 on Thursday, June 23, 2005, at 10 a.m. CDT. The Notice of Annual Meeting, Proxy Statement and Proxy Voting Card are mailed on or around May 16, 2005, to each stockholder of record at the close of business on May 2, 2005. The Proxy Statement describes the items of business to be voted on at the Annual Meeting and provides information on the Board of Directors nominees for directors and their principal affiliations with other organizations as well as other information about the Company.

Dividend Payment Dates

The next four anticipated dividend payment dates are July 1 and October 3, 2005, and January 3 and April 3, 2006.

Stock Exchange Listing

The Company s stock is traded on the NYSE under the symbol AGE. The approximate number of stockholders on February 28, 2005, was 23,000. The approximate number of stockholders of record includes customers who hold the Company s stock in their accounts on the books of Edwards.

Registrar/Transfer Agent

The Bank of New York
Shareholder Relations Department 11E
P.O. Box 11258
Church Street Station
New York, New York 10286-1258
(800) 524-4458

ITEM 6. SELECTED FINANCIAL DATA.

Consolidated Five-Year Summary

Year Ended	**February 28, 2005**	**February 29, 2004**	**February 28, 2003**	**February 28, 2002**	**February 28, 2001**
			(In thousands, except per share amounts)		

Year Ended	February 28, 2005	February 29, 2004	February 28, 2003	February 28, 2002	February 28, 2001
Revenues					
Commissions:					
Listed securities	$ 440,680	$ 448,035	$ 387,483	$ 403,921	$ 482,136
Options	22,274	23,669	23,485	28,453	55,883
Over-the-counter securities	94,478	115,425	70,864	111,065	295,921
Mutual funds	259,179	260,518	201,567	214,339	293,307
Commodities and financial futures	25,536	27,758	19,331	13,289	13,158
Insurance	192,019	205,622	185,249	174,281	184,762
Total	1,034,166	1,081,027	887,979	945,348	1,325,167
Asset management and service fees:					
Distribution fees	498,026	366,735	336,636	377,923	370,193
Fee-based accounts	323,769	246,943	225,888	220,315	214,296
Service fees	97,282	109,708	90,493	79,694	83,625
Total	919,077	723,386	653,017	677,932	668,114
Principal transactions:					
Equities	75,504	79,662	58,436	73,553	114,363
Debt securities	178,395	217,224	252,688	246,131	177,912
Total	253,899	296,886	311,124	319,684	292,275
Investment banking:					
Underwriting fees and selling concessions	174,555	240,094	184,220	186,839	144,725
Management fees	71,067	81,767	66,960	69,590	28,572
Total	245,622	321,861	251,180	256,429	173,297
Interest:					
Margin account balances	107,611	74,662	86,189	150,365	331,980
Securities owned and deposits	21,132	21,470	20,474	23,451	35,027
Total	128,743	96,132	106,663	173,816	367,007
Other	30,288	6,384	10,239	6,592	31,630
Total Revenues	2,611,795	2,525,676	2,220,202	2,379,801	2,857,490
Interest expense	4,114	2,859	5,850	27,415	104,550
Net Revenues	2,607,681	2,522,817	2,214,352	2,352,386	2,752,940
Non-Interest Expenses					
Compensation and benefits	1,699,156	1,642,999	1,448,199	1,551,898	1,763,037
Communication and technology	241,830	272,047	282,603	295,353	242,530
Occupancy and equipment	151,426	137,617	134,149	133,240	126,594
Marketing and business development	65,682	53,262	45,649	47,434	55,041
Floor brokerage and clearance	21,341	22,495	22,464	21,912	22,957
Other	133,839	149,123	109,854	128,029	87,627
Restructuring				82,462	
Total Non-Interest Expenses	2,313,274	2,277,543	2,042,918	2,260,328	2,297,786
Earnings Before Income Taxes	294,407	245,274	171,434	92,058	455,154
Income Taxes	107,933	85,789	52,606	20,557	167,677
Net Earnings	$ 186,474	$ 159,485	$ 118,828	$ 71,501	$ 287,477
Per Share Data:					

Year Ended	February 28, 2005	February 29, 2004	February 28, 2003	February 28, 2002	February 28, 2001
Diluted Earnings	$ 2.37	$ 1.97	$ 1.46	$ 0.88	$ 3.43
Basic Earnings	$ 2.39	$ 1.99	$ 1.48	$ 0.89	$ 3.50
Cash Dividends	$ 0.64	$ 0.64	$ 0.64	$ 0.64	$ 0.64
Book Value	$ 23.21	$ 22.08	$ 20.92	$ 20.42	$ 20.29
Other Data:					
Total Assets	$4,687,797	$4,436,085	$3,980,094	$4,187,170	$4,859,984
Stockholders Equity	$1,787,691	$1,778,319	$1,688,537	$1,647,796	$1,626,344
Cash Dividends	$ 49,392	$ 51,007	$ 51,034	$ 51,043	$ 51,962
Pre-tax Return on Average Equity	16.5%	14.1%	10.3%	5.6%	27.2%
Return on Average Equity	10.5%	9.2%	7.1%	4.4%	17.2%
Net Earnings as a Percent of Net Revenues	7.2%	6.3%	5.4%	3.0%	10.4%
Average Common and Common Equivalent Shares Outstanding (Diluted)	78,766	80,990	81,177	81,282	83,925
Average Common Shares Outstanding (Basic)	77,908	80,031	80,133	80,013	82,096

Note: Where appropriate, prior years financial information has been reclassified to conform to current-year presentation.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

(Year references are to fiscal years ended February 28(29) unless otherwise specified)

Introduction

A.G. Edwards, Inc. is a financial services holding company whose primary subsidiary is the national brokerage firm of A.G. Edwards & Sons, Inc. (Edwards). A.G. Edwards, Inc. and its operating subsidiaries (collectively, the Company), provide securities and commodities brokerage, investment banking, trust, asset management, retirement and financial planning, insurance products, and other related financial services to individual, corporate, governmental, municipal and institutional clients through one of the industry s largest retail branch distribution systems. The Company is a St. Louis-based financial services firm with more than 700 locations and nearly 15,400 full-time employees in 49 states, the District of Columbia, London, England and Geneva, Switzerland.

The number of the Company s financial consultants at year-end was 6,890, a decrease of 90 (1 percent) from the prior year-end. The total number of locations at the end of 2005 was 721, up 11 from the end of 2004.

Executive Summary

Many factors affect the Company s net revenues and profitability, including economic and market conditions, the level and volatility of interest rates, inflation, political events, investor sentiment, legislative and regulatory developments, and competition. Because many of these factors are unpredictable and beyond the Company s control, earnings may fluctuate significantly from year to year.

Fiscal 2005 saw a continued interest by the retail investor in the equity markets, primarily through diversified investments as market and economic conditions showed improvement, albeit at significantly less robust levels than those seen in 2004. The Dow Jones Industrial Average (DJIA) increased 182 points (2 percent) to close the year at 10,766, the Standard & Poor s 500 Index (S&P 500) increased 59 points (5 percent) to close the year at 1,204, and the Nasdaq Composite Index (Nasdaq) increased 22 points (1 percent) to close the year at 2,052. Activity on the major exchanges was mixed when compared to the previous year. Overall trading volumes on the New York Stock Exchange (NYSE) increased

1.1 percent in 2005 and 1.5 percent in 2004, while overall trading volumes on the Nasdaq decreased 0.5 percent in 2005 but increased 5.4 percent in 2004.

The Company generates revenues primarily through Edwards. These revenues can be categorized into four main components: transaction-based revenues, asset management services, interest on margin accounts and underwriting and management fees from investment banking transactions.

Transaction-based revenues are driven from the purchase or sale of securities by clients for their accounts. The Company earns commissions for acting as an agent for the client in the equity and fixed-income markets, as a dealer when the client purchases either fixed-income or equity securities from inventory, or from selling concessions when the client purchases newly issued securities in investment banking transactions. These revenues can be affected by trading volumes, by market and economic conditions, and by investor sentiment because the Company s clients are primarily retail-oriented.

Revenues from asset management services are based principally on the amount of certain client assets purchased or held through the Company. These assets may be managed by the Company or by third-party investment managers, including mutual funds, managed futures funds, money market funds, annuities and insurance contracts. The Company manages client assets through the A.G. Edwards Trust Company FSB, a wholly owned subsidiary, and through Edwards asset management service. The Company offers a fee-based transaction account, known as Client Choice, and a non discretionary advisory program known as Portfolio Advisor. The Company also offers fee-based fund advisory programs that allow clients to select from recommended, established asset allocation models or customize their own models in certain programs. The fund advisory programs are known individually as AGE Allocation Advisors, AGE Pathways, AGE Professional Fund Advisor and AGE Mutual Fund Marketplace. Additionally, the Company offers separately managed accounts, known as Private Advisor Service and Select Advisor, to provide clients access to third-party investment management and related consulting services, as well as Edwards asset management service.

The SEC adopted rules effective April 15, 2005, with compliance dates between April 15, 2004, and October 24, 2005, concerning when broker-dealers providing advice will and will not be exempted from the Investment Advisers Act of 1940 (the Advisers Act). The Company is still evaluating the effect of the rules on the Company s business accounts and services. The rules will require additional disclosures for certain brokerage accounts at Edwards and may make certain accounts and services subject to the Advisers Act that were not previously subject to the act or require changes in such accounts and services. Accounts and services subject to the Advisers Act are subject, among other things, to additional disclosures, a fiduciary standard of care and restrictions on certain transactions.

Client assets in fee-based accounts increased $3.5 billion (13 percent) from the end of 2004. An analysis of changes in assets in fee-based accounts from February 29, 2004, to February 28, 2005 is detailed below (dollars in thousands):

Assets in fee-based accounts	February 28, 2005	February 29, 2004	Difference
Fund advisory programs	$ 9,871,000	$ 7,096,000	39%
Separately managed accounts	11,438,000	10,997,000	4%
Company-managed and other fee-based accounts	9,443,000	9,182,000	3%
Total assets in fee-based accounts	$30,752,000	$27,275,000	13%

Interest revenue is derived primarily from financing clients margin transactions. These revenues are based on the amount of client margin balances and the rate of interest charged on these balances.

Investment banking management fees result from bringing new issues of securities, both equity-based and fixed income-based, to the market for issuers. The issuers are generally corporate or municipal clients but may be institutional clients in the case of exchange-traded funds and related products. The fees generated from these transactions vary depending on the number and size of transactions successfully completed.

The Company s expenses are primarily related to compensation and benefits. The largest components are variable in nature and relate to commissions paid to the Company s financial consultants related to transaction-based or asset management services and incentive compensation, which is largely based on the profitability of the Company. The Company is focusing on making a larger portion of its non compensation expenses more variable in nature, particularly those expenses related to its back-office systems.

The results for fiscal 2005 include a $10 million charge in occupancy and equipment expenses, which represents the cumulative effect of correcting the recognition period for rent-escalation clauses and lease incentives included in certain branch-office leases. The results for fiscal 2005 also include an $8 million credit in other expenses, to correctly recognize state registration fees for Edwards financial consultants over the registration period. The correcting entries were recorded in the fourth quarter of fiscal 2005 and were not material to the quarter, the year, or any prior period s consolidated financial information.

In 2005, the Company experienced an increase in net revenues, net earnings and earnings per share versus the previous fiscal year, as it did in 2004 compared to 2003. Net revenues increased 3 percent to $2.6 billion in 2005 after increasing 14 percent to $2.5 billion in 2004. In 2005, the Company s overall results benefited from increasing client interest in fee-based products and services, as revenues from asset management and service fees increased $196 million (27 percent). Meanwhile, the Company s revenues from equity-based transactions decreased $87 million (10 percent) and revenues from fixed income-based transactions, primarily corporate and municipal debt, decreased $51 million (18 percent). The revenue results of both equity-based and fixed income-based transactions reflect decreased interest in individual securities. Net earnings increased $27 million (17 percent) to $186 million in 2005 after increasing $41 million (34 percent) to $159 million in 2004. Diluted earnings per share for the Company were $2.37 in 2005 versus $1.97 in 2004 and $1.46 in 2003. The Company s profit margin was 7.2 percent in 2005, 6.3 percent in 2004 and 5.4 percent in 2003.

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The following table illustrates the composition of the Company s net revenues for 2005, 2004 and 2003:

	2005	**2004**	**2003**
Commissions	40%	43%	40%
Asset management and service fees	35%	28%	30%
Principal transactions	10%	12%	14%
Investment banking	9%	13%	11%
Net interest	5%	4%	5%
Other	1%		

In addition to continued competition from firms traditionally engaged in the investment services business, there has been increased competition in recent years from other sources, such as commercial banks, insurance companies, online service providers, mutual fund sponsors and other companies offering financial services both in the United States and globally for a similar client base, including the client base served by the Company.

Results of Operations

The following table and discussion summarize the changes in major categories of revenues and expenses for the past two fiscal years (dollars in thousands):

Increase (Decrease)	**2005 vs. 2004**		**2004 vs. 2003**	
Revenues				
Commissions	$ (46,861)	(4)%	$ 193,048	22%
Asset management and service fees	195,691	27	70,369	11
Principal transactions	(42,987)	(14)	(14,238)	(5)
Investment banking	(76,239)	(24)	70,681	28
Interest	32,611	34	(10,531)	(10)
Other	23,904	374	(3,855)	(38)
Total Revenues	86,119	3	305,474	14
Interest expense	1,255	44	(2,991)	(51)
Net Revenues	$ 84,864	3%	$ 308,465	14%
Non-Interest Expenses				

Increase (Decrease)	2005 vs. 2004		2004 vs. 2003	
Compensation and benefits	$ 56,157	3%	$ 194,800	13%
Communication and technology	(30,217)	(11)	(10,556)	(4)
Occupancy and equipment	13,809	10	3,468	3
Marketing and business development	12,420	23	7,613	17
Floor brokerage and clearance	(1,154)	(5)	31	0
Other	(15,284)	(10)	39,269	36
Total Non-Interest Expenses	$ 35,731	2%	$ 234,625	11%

Commissions

Commission revenues arise from activities in transaction-based accounts in listed and over-the-counter securities, mutual funds, futures, options, and insurance products. As commissions are transaction-based revenues, they are influenced by the number, size and market value of client transactions and by product mix. The relatively flat trading volumes on the major stock exchanges along with greater client interest in fee-based products and services were reflected in the Company s commission revenues, which decreased $47 million (4 percent) from $1.08 billion in 2004 to $1.03 billion in 2005. Commissions from listed transactions decreased $9 million (2 percent), and over-the-counter transactions decreased $21 million (18 percent). Revenues from commodities and financial futures decreased $2 million (8 percent). Decreased interest in variable annuities resulted in a $14 million (7 percent) decline in insurance revenues.

The $193 million (22 percent) increase in commission revenues in 2004 over 2003 resulted primarily from greater investor participation in the equity markets given the favorable market conditions during that period. Commissions from listed transactions increased $61 million (15 percent), over-the-counter transactions increased $45 million (63 percent), and mutual funds increased $59 million (29 percent). Revenues from commodities,

managed futures funds and insurance products increased a combined $29 million (14 percent) as investors also increased their interest in these investment products.

Asset Management and Service Fees

Asset management and service fees include fees based on the value of client assets under management and transaction-related service fees as well as fees related to the administration of custodial and other specialty accounts. These revenues consist primarily of revenues earned from providing support and services in connection with client assets under third-party management, including mutual funds, managed futures funds, money market funds, annuities and insurance contracts as well as the Company s trust services and other fee-based accounts. (Please refer to Mutual Fund Matters below.)

Asset management and service fee revenues increased $196 million (27 percent) in 2005. Fees received in connection with client assets under third-party management and the Company s trust services and fee-based transaction accounts increased $77 million (31 percent), primarily as a result of an increase in the number of accounts choosing fee-based alternatives and the increased valuation of these accounts. Fees received from third-party mutual funds and insurance providers increased $92 million (32 percent) primarily reflecting the individual investor s return to the equity markets through diversified investments. Revenues from fees received from third-party investment managers in connection with the distribution of certain third-party money market funds offered by the Company increased $43 million (146 percent). For a portion of 2003 and 2004 these money market funds had reached expense caps due to low money fund yields. In the third quarter of 2004, the investors in these money market funds voted to lift the funds expense caps. Service fees decreased $12 million (11 percent) primarily due to the March 2004 sale of CPI Qualified Plan Consultants, Inc. (CPI), a third-party administrator of employee benefit plans and a wholly owned subsidiary, to a group of investors headed by CPI s management.

In 2004, asset management and service fees increased $70 million (11 percent) from 2003 for mainly the same reasons as those in comparing 2005 results to 2004. The 2004 results additionally reflect a $19 million (21 percent) increase primarily from changes to some of the Company s account services fees.

Principal Transactions

The Company maintains inventories of fixed-income and equity securities to satisfy client demand and, therefore, effects certain transactions with its clients by acting as a principal. Realized and unrealized gains and losses result from the sale and holding of securities positions for resale to clients and are included in principal transaction revenue.

In 2005, revenue from principal transactions decreased $43 million (14 percent) from 2004, directly reflecting investors decreased interest in fixed-income products. Revenue from the sale of municipal, government and corporate fixed-income securities decreased $39 million (18 percent). Revenue from the sale of corporate equity securities decreased $4 million (5 percent) reflecting decreased activity in the over-the-counter equity markets.

In 2004, revenue from principal transactions decreased $14 million (5 percent) from 2003. Revenue from the sale of municipal and corporate fixed-income securities decreased $34 million (17 percent), while revenues from the sale of corporate equity securities increased $21 million (36 percent). These results reflected investors shift away from fixed-income products toward equity investments.

Investment Banking

The Company derives investment banking revenues from underwriting public offerings of securities for corporate and governmental entities for sale to its clients. The Company also provides advisory services to corporate and governmental entities.

Revenues from investment banking activities decreased $76 million (24 percent) in 2005. Underwriting fees and selling concessions from corporate equity transactions decreased $53 million (30 percent) and management fees decreased $11 million (13 percent). These changes largely reflect lower volume in the underwriting of a variety of closed-end funds and other equity products in interest-rate-sensitive sectors. Underwriting fees and selling concessions from corporate, municipal and government debt products declined $12 million (19 percent) due to reduced offerings of debt products due to a rising rate environment.

In 2004, investment banking revenues increased $71 million (28 percent). Underwriting fees and selling concessions from corporate equity transactions increased $76 million (77 percent), and management fees increased $15 million (22 percent), while revenues derived from debt products decreased $20 million (24 percent) as clients sought higher yields and greater exposure to the equity markets.

Net Interest Revenue

Interest revenue net of interest expense increased $31 million (34 percent) during 2005. In January 2004, the Company changed the base rate upon which margin interest is calculated from the broker call rate to the prime rate. Additionally, the Company saw slight increases in average client margin balances, and the Federal Funds rate increased 1.5 percent during 2005. In 2004, these revenues decreased $8 million (7 percent) due to declines in average client margin balances and in average interest rates.

Other Revenue

Other revenue increased $24 million during 2005, reflecting gains of $10 million on the sale of shares in the Chicago Mercantile Exchange and the mark-to-market on other shares in this exchange that the Company currently holds. Other revenue for 2005 additionally reflects a $6 million insurance settlement as a result of business interruptions following September 11, 2001, and a $10 million increase in private equity investment valuations.

Compensation and Benefits

Compensation and benefits increased $56 million (3 percent) in 2005. A significant portion of this expense is variable in nature and relates to commissionable sales (sales upon which payments are made to financial consultants) and to incentive compensation, which are based largely upon the Company s profitability. The year-to-year comparisons generally reflect the changes in commissionable sales and profitability in both 2005 and 2004. The variable components within compensation and benefits, including commissions paid to financial consultants and incentive compensation, increased $32 million (3 percent) in 2005 as a result of increased sales and earnings. Administrative salaries and other fixed components increased $24 million (5 percent) as a result of general wage increases and higher medical costs.

In 2004, compensation and benefits increased $195 million (13 percent). The variable components within compensation and benefits increased $204 million (20 percent) following increased sales and earnings. Administrative salaries and other fixed components decreased $9 million (2 percent) as a result of fewer employees and lower medical costs due to plan changes.

Communication and Technology

Communication and technology expenses decreased $30 million (11 percent) in 2005 largely resulting from decreased depreciation and lower leasing costs associated with financial consultants workstations and lower amortization of the development costs associated with the Company s online account access service. These decreases were partially offset by increased professional expenses for outside consultants working on the Company s Gateway Initiative. Depreciation related to the Company s broker workstations will increase as the installation of new workstations is completed.

In 2004, communication and technology expenses decreased $11 million (4 percent) principally related to lower costs associated with financial consultants workstations.

Occupancy and Equipment

Occupancy and equipment expenses increased $14 million (10 percent) during 2005 primarily due to the $10 million charge recorded to correct the recognition period for rent-escalation clauses and lease incentives included in certain branch-office leases.

In 2004, occupancy and equipment expenses increased due to depreciation of the recently completed home office expansion.

Marketing and Business Development

Marketing and business development increased $12 million (23 percent) in 2005 and $8 million (17 percent) in 2004 primarily as a result of additional advertising expenses associated with the Company s branding initiative. While the amount has not been determined with certainty, the Company expects its branding initiative to cost approximately $20 million annually, with fluctuations from quarter to quarter.

All Other Expenses

All remaining operational expenses decreased $16 million (10 percent) in 2005. Legal and consulting service expenses increased $17 million as a result of additional resources needed to address various regulatory changes, investigations and legal matters. This was partially offset by an $8 million credit recorded to correctly recognize state registration fees for the Company s financial consultants over the registration period. In addition, other expenses declined due to charges in 2004 related to the Georgia consent order and the breakpoint discount reserve discussed below.

In 2004, other expenses increased $39 million (36 percent) due primarily to a $20 million increase in the reserve associated with certain payments agreed to under a consent order with the Georgia Secretary of State s Securities and Business Regulation Division and the establishment of a $4.5 million reserve for mutual fund breakpoint refunds to clients as required by the National Association of Securities Dealers (NASD). The charge for the breakpoint reserve, net of decreases in related compensation expenses, was $2.6 million. In addition, the cost of professional consulting and auditing services related to legal and other regulatory matters increased $9 million in 2004 and insurance expense increased $2 million due to higher premiums for various insurance coverages.

Income Taxes

The Company s effective tax rate was 37 percent for the current year, compared to 35 percent for the prior year. For additional information regarding the difference between effective tax rates and statutory rates, see Note 8 (Income Taxes) of the Notes to Consolidated Financial Statements. In addition, see the discussion under Critical Accounting Estimates below.

Mutual Fund Matters

The SEC, the NASD, the NYSE and other regulators, including several states, as well as Congress, have examined or are examining the manner in which mutual funds compensate broker-dealers in connection with the sale of mutual funds. Edwards has provided information in connection with certain related examinations. Regulatory changes may require additional disclosures by mutual fund companies, broker-dealers or both and may affect the methods of compensating broker-dealers for mutual fund sales. The SEC adopted rules, effective December 13, 2004, prohibiting mutual funds from paying for the distribution of their shares with brokerage commissions. Certain mutual fund companies have notified Edwards that they have changed the amount of compensation they will pay for brokerage transactions. Edwards continues to compete actively for transaction business from institutional clients. Edwards is not able to predict the impact of changes related to mutual funds, including changes to date, additional changes that may occur in regulations, or changes caused by the actions of mutual fund companies. However, the effect could be significant and adverse.

Edwards has received information requests or subpoenas from the SEC, the NASD, the NYSE, several states and the United States Department of Justice with respect to mutual fund transactions that involve market timing, late trading or both. The SEC, the NASD and certain states have examined certain branch offices and have or will take statements from employees of Edwards in connection with such mutual fund transactions. In addition, Edwards has received requests for information concerning timing of mutual fund transactions in variable annuity sub accounts.

The Commonwealth of Massachusetts has filed an administrative complaint against Edwards concerning certain mutual fund transactions in Edwards Boston-Back Bay office. The complaint alleges violations of securities laws by mutual fund market timing transactions and seeks a cease and desist order, an administrative fine in an unspecified amount, compensation to mutual fund holders for losses alleged to have resulted from market timing, and other relief. Other regulatory actions or claims may occur related to market timing or other mutual fund activities.

The SEC has asked Edwards, like other firms that use the National Securities Clearing Corporation s Fund/SERV system to submit and clear mutual fund orders, to review systems and controls for mutual fund orders to prevent late trading, and to review all mutual fund orders for a year to determine whether late trading in mutual funds occurred. As a result of the reviews of systems and controls, Edwards has changed certain policies and procedures and developed and implemented additional policies and procedures relating to the receipt and supervision of mutual fund orders.

Edwards has been named as a defendant in a lawsuit that seeks class-action status filed in the state of Missouri that alleges, among other matters, that mutual fund transactions with certain customers were influenced by undisclosed shared revenue payments. Edwards is currently reviewing the suit.

The NASD has advised Edwards that it has made a preliminary determination to recommend that disciplinary action be brought against Edwards concerning the sale of mutual fund class-B shares and class-C shares based upon, it is believed, the grounds for recommending such sales, suitability violations, and Edwards supervisory procedures. The NASD orally proposed a settlement, including a fine, the offer to customers to switch to class-A shares and reimbursement for any disadvantage based on actual performance and the retention of an independent consultant to review supervisory procedures. Edwards is currently reviewing the allegations.

The NASD has advised Edwards that it has made a preliminary determination to recommend a disciplinary action against Edwards concerning the sale of certain mutual funds to IRA accounts in 2001 and 2002 for which certain mutual fund companies made additional payments to Edwards for sales.

The Company is not able to determine or predict with certainty the impact of the matters described above individually or in the aggregate in terms of eventual fines, other payments or losses, or changes in operations, product offerings or expenses because of the preliminary stages of certain of such matters, the uncertainty of outcomes and the evolving basis of such regulatory actions. The Company believes, based on current knowledge and after consulting with counsel, that the impact of such matters will not be material to the consolidated financial condition of the Company, but could be material to operating results in one or more periods.

Auction Rate Securities

Edwards and other financial services firms have been asked by the SEC to voluntarily review the supervision and operation of certain auction rate securities transactions. Edwards has performed its review. Regulatory actions or claims may result from the information developed during the review. The Company is unable to determine with certainty the impact of any such action or claims, if any, on its results of operations for future periods. However, based on currently known facts, the Company believes that the resolution of any such matters, if brought, would not have a material adverse effect on the Company s consolidated balance sheets, statements of earnings or statements of cash flows.

Prospectus Delivery Requirements

Edwards and other financial services firms have received information requests from the NYSE with respect to delivery of prospectuses to customers. Edwards has performed the review and responded to the NYSE s inquiry. Regulatory actions or claims may result from the information developed during the review. The Company is unable to determine with certainty the impact of any such action or claims, if any, on its results of operations for future periods. However, based on currently known facts, the Company believes that the resolution of any such matters, if brought, would not have a material adverse effect on the Company s consolidated balance sheets, statements of earnings or statements of cash flows.

Liquidity and Capital Resources

The Company s assets fluctuate in the normal course of business, primarily due to the timing of certain transactions. The principal sources for financing the Company s business are stockholders equity, cash generated from operations, short-term bank loans and securities-lending arrangements. The Company has no long-term debt. Average short-term bank loans of $32 million and $75 million and average securities-lending arrangements of $196 million and $181 million in 2005 and 2004, respectively, were primarily used to finance customer receivables.

The Company is engaged in a major business process and technology transformation program, the Gateway Initiative, which, when fully developed and implemented, will update the Company s technology infrastructure, streamline its back-office processing and strengthen its data management capabilities. The Company has currently designated up to $196 million, including internal development costs, to fund this program. Total costs through February 28, 2005, were $165 million, of which $48 million was capitalized. Significant components of this program are expected to be completed in fiscal year 2006 including migration to an application service provider, which is scheduled to occur in May 2005. Thomson Financial, Inc. (Thomson), an application service provider, will provide the software and computer operations that support the Company s securities processing functions. The Company entered into an 86-month Hosting and Services Agreement with Thomson in October 2004. Under this agreement, which starts upon conversion, minimum payments are $10 million a year with an expected range of payments between $18 million and $22 million a year. While the Company s migration of its back-office systems to Thomson is intended to better align trade-processing expenses with client transaction activity, the Company intends to maintain certain of its existing back-office systems for a transitional period of approximately 12 to 18 months.

In March 2004, the Company sold CPI to a group of investors headed by CPI s management. The transaction price was $17 million, with $11 million received immediately and the remainder to be received over a five-year period. CPI had approximately 350 employees at the date of sale.

In November 2004, the Company s Board of Directors authorized the repurchase of up to 10 million shares of the Company s outstanding stock during the period November 19, 2004, through December 31, 2006. In November 2002, the Company s Board of Directors authorized the repurchase of up to 10 million shares of the Company s outstanding common stock during the period of January 1, 2003, through December 31, 2004. The Company purchased 7,026,392 shares at an aggregate cost of $250 million in 2005; 3,102,854 shares at an aggregate cost of $105 million in 2004; and 3,145,319 shares at an aggregate cost of $115 million in 2003, under these authorizations and other previously authorized plans.

Tabular Disclosure of Contractual Obligations

The following table summarizes information about the Company s long-term contractual commitments and obligations as of February 28, 2005 (dollars in thousands):

Contractual Obligations	Total	2006	2007 2008	2009 2010	More than 5 years
Operating lease obligations	$451,200	$ 72,300	$156,500	$112,300	$110,100
Communications, technology, and other service commitments	187,000	45,400	71,400	48,100	22,100
	$638,200	$117,700	$227,900	$160,400	$132,200

The Company had committed $127 million to various private equity partnerships, of which $43 million remained unfunded at February 28, 2005. These commitments are subject to calls by the partnerships as funds are needed.

The Company has commitments to its employees for deferred compensation in the amount of $224 million that becomes payable in future years as defined in the plan and determined by participants request or retirement. For additional information regarding the deferred compensation liability, see Note 3 (Employee Profit Sharing Plan) of the Notes to Consolidated Financial Statements.

Management believes the Company has adequate sources of credit available, if needed, to finance customer-trading volumes, expansion of its branch system, stock repurchases, dividend payments and major capital expenditures. At February 28, 2005, the Company, with certain limitations, had access to $1.3 billion in uncommitted lines of credit as well as the ability to increase its securities lending activities.

The Company s principal subsidiary, A.G. Edwards & Sons, Inc., is required by the SEC to maintain specified amounts of liquid net capital to meet its obligations to clients. See Note 7 (Net Capital Requirements) of the Notes to Consolidated Financial Statements.

Critical Accounting Estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. In preparing these consolidated financial statements, management makes use of certain estimates and assumptions. See Note 1 (Summary of Significant Accounting Policies) of the Notes to Consolidated Financial Statements. The Company believes that of its significant accounting policies, the following critical policies, estimates and assumptions may involve a higher degree of judgment and complexity and are the most susceptible to significant fluctuations in the near term.

Valuation of Investments

The fair value of investments, for which a quoted market or dealer price is not available, is based on management s estimate. Among the factors considered by management in determining the fair value of investments are cost, terms and liquidity of the investment, the sale price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yields that are publicly traded, and other factors generally pertinent to the valuation of investments.

Valuation of Stock Options

The Company applies the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations to account for options granted under its Incentive Stock Plan. Based on the provisions of this plan, no compensation expense has been recognized for options issued under this plan. The fair value of the stock options is estimated using expected dividend yields of the Company s stock, the expected volatility of the stock, the expected length of time the options remain outstanding, risk-free interest rates and expected forfeiture rates. Changes in one or more of these factors may significantly affect the estimated fair value of the stock options. Please see Recent Accounting Pronouncements below for discussion of pending guidance on stock-based compensation.

Software Development Costs

The Company applies the provisions of American Institute of Certified Public Accountants Statement of Position No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, to account for costs associated with internally developed software. The Company capitalizes the costs associated with software development based on guidance provided in the statement. The primary factors considered in determining the amount to capitalize include the stage of the development effort and the type of work being performed. Only costs incurred during the application development stage are capitalized. When placed in service, these costs are typically amortized over three to five years and are included in communication and technology expense on the Company s consolidated statements of earnings.

Allowance for Doubtful Accounts From Customers

Receivables from customers consist primarily of floating rate loans collateralized by margin securities. Management estimates an allowance for doubtful accounts to reserve for potential losses from unsecured and partially unsecured customer accounts deemed uncollectible. The facts and circumstances surrounding each receivable and the number of shares, price and volatility of the underlying collateral are considered by management in determining the allowance. Management continually evaluates its receivables from customers for collectibility and possible write-off. The Company manages the credit risk associated with its receivables from customers through credit limits and continuous monitoring of collateral.

Legal Reserves and Regulatory Matters

The Company is a defendant in a number of lawsuits, in some of which plaintiffs claim substantial amounts, relating primarily to its securities and commodities business. Management has determined that it is likely that ultimate resolution in favor of the plaintiffs will result in losses to the Company on certain of these claims and as a result, establishes accruals for potential litigation losses. The Company also is involved, from time to time, in investigations and proceedings by governmental and self-regulatory agencies, certain of which may result in

adverse judgments, fines or penalties. Factors considered by management in estimating the Company s reserve for these matters are the loss and damages sought by the plaintiffs, the merits of the claims, the total cost of defending the litigation, the likelihood of a successful defense against the claims, and the potential for fines and penalties from regulatory agencies. Management, based on its understanding of the facts, reasonably estimates a range of loss and accrues what it considers appropriate to reserve against probable loss for certain claims and regulatory matters. While results of litigation and investigations and proceedings by governmental and self-regulatory agencies or the results of judgments, fines or penalties cannot be predicted with certainty, management, after consultation with counsel believes that resolution of all such matters are not expected to have a material adverse effect on the consolidated balance sheets, statements of earnings or statements of cash flows of the Company, except that, as stated under Mutual Fund Matters included under Item 7 of this Form 10-K, the Company believes, based on current knowledge and after consulting with counsel, that the impact of the matters discussed under Mutual Fund Matters will not be material to the consolidated financial condition of the Company, but could be material to the operating results in one or more periods.

Income Taxes

The Company operates in multiple taxing jurisdictions, and as a result, accruals for tax contingencies require management to make estimates and judgments with respect to the ultimate tax liability in any given year. Actual results could vary from these estimates. In management s opinion, adequate provisions for income taxes have been made for all years.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and measurement based on the grant-date fair value of the award. It also requires the cost to be recognized over the period during which an employee is required to provide service in exchange for the award (presumptively the vesting period). SFAS No. 123R replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25 and its related interpretations. As modified by the SEC on April 21, 2005, SFAS No. 123R is effective for fiscal years beginning after June 15, 2005, and applies to all awards granted, modified, repurchased, or cancelled after that date. The Company elected early adoption of SFAS No. 123R on March 1, 2005, using the modified prospective method.

Under the modified prospective method of SFAS No. 123R, the Company is required to recognize compensation expense for the outstanding portion of any awards for which compensation expense had not previously been recognized or disclosed under SFAS No. 123. The Company currently recognizes the compensation expense of restricted stock awards and discloses the pro forma compensation expense of stock option awards in the year of the award. Under SFAS No. 123R, the Company will recognize compensation expense for restricted stock and stock option awards over the vesting period, generally three years following the award. As the Company will have recognized compensation expense or disclosed pro forma compensation expense related to all outstanding awards as of the adoption date, there will be no compensation expense recognized for these outstanding awards in future periods. In addition, as the awards related to fiscal year 2006 will not be issued until the end of fiscal year 2006, the compensation expense related to those awards will not be recognized in 2006 but over the subsequent vesting period. As restricted stock and stock option awards are determined each year, the impact to the Company s consolidated financial statements of the adoption of SFAS No. 123R cannot be predicted with certainty. However, the fair value of restricted stock awards recognized in compensation expense ranged in value from $22 million to $35 million over the last three fiscal years, and the fair value of stock option awards disclosed in the footnotes to the consolidated financial statements, but not included in compensation expense, over the last three fiscal years ranged from $5 million to $8 million.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, which requires the consolidation by a business enterprise of variable interest entities if the business enterprise is the primary beneficiary. FIN 46 was effective January 31, 2003, for the Company with respect to interests in variable interest entities obtained after that date. With respect to interests in variable interest entities existing prior to February 1, 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003) (FIN 46R), which extended the effective date to the period ended May 31, 2004. The Company s adoption of FIN 46R did not have a material impact on the Company s consolidated financial statements. The Company did not acquire any variable interest entities subsequent to February 1, 2003.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that SFAS No. 143, Accounting for Asset Retirement Obligations, requires that an entity recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability s fair value can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company has not yet determined the impact that the adoption of this interpretation will have on its consolidated financial statements.

Risk Management

General

The business activities of the Company expose it to a variety of risks. Management of these risks is necessary for the long-term profitability of the Company. The Company manages these risks through the establishment of numerous policies, procedures and controls. The most significant risks to the Company are operational, legal, credit and market risk.

Off-Balance Sheet Arrangements

The Company does not rely on off-balance sheet arrangements or transactions with unconsolidated, special purpose or limited purpose entities to manage its risks.

Operational Risk

Operational risk refers generally to the risk of loss resulting from the Company s operations including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in the Company s operating systems, and inadequacies or breaches in the Company s control processes. The Company operates in diverse markets and is reliant on the ability of its employees and systems to process high numbers of transactions. In the event of a breakdown or improper operation of systems or improper actions by employees, the Company could suffer financial loss, regulatory sanctions and damage to its reputation.

In order to mitigate and control operational risk, the Company developed, and continues to enhance, specific policies and procedures that are designed to identify and manage operational risk at appropriate levels. For example, the Company has procedures that require that all transactions are accurately recorded and properly reflected in the Company s books and records and are confirmed on a timely basis, that position valuations are subject to periodic independent review procedures, and that collateral and adequate documentation (e.g., master agreements) are obtained from counterparties in appropriate circumstances. The Company also uses periodic self-assessments and Internal Audit examinations as further reviews of operational risk.

Legal Risk

Legal risk includes the risk of non compliance with applicable legal and regulatory requirements and the risk that a counterparty s performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. The Company has established procedures based on legal and regulatory requirements that are designed to ensure compliance with all applicable statutory and regulatory requirements. The Company also has established procedures that are designed to ensure that senior management s policies relating to conduct, ethics and business practices are followed. In connection with its business, the Company has various procedures addressing significant issues such as regulatory capital requirements, sales and trading practices, new products, use and safekeeping of customer funds and securities, extension of credit, collection activities, money laundering, privacy, and record keeping.

Credit Risk

Credit risk is discussed in Note 12 (Financial Instruments Off-Balance Sheet Risk and Concentration of Credit Risk) of the Notes to Consolidated Financial Statements.

Market Risk

Market risk is the risk of loss to the Company resulting from changes in interest rates, equity prices or both and has an indirect effect on the Company s credit risk as it relates to the value of customer collateral. The Company is exposed to market risk to the extent it maintains positions in fixed-income and equity securities. The Company primarily manages its risk through the establishment of trading policies and guidelines and through the implementation of control and review procedures. The Company s management philosophy provides for communication among all responsible parties throughout the trading day.

The Company s policy is to purch