

EDWARDS A G INC
Form 10-K
May 11, 2006

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, 2006
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

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
<i>COMMON STOCK, \$1 PAR VALUE</i>	<i>NEW YORK STOCK EXCHANGE</i>

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No .

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 No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) 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. .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

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As of August 31, 2005, 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 \$3.5 billion.

At May 1, 2006, there were 76,555,527 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 22, 2006, (the "Company's 2006 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.

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, has trading privileges or has access to all major securities exchanges in the United States, and is a member of 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 that invest in portfolios of venture capital funds, 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. On October 1, 2005, the Company incorporated a new subsidiary, Gallatin Asset Management, Inc. (["Gallatin"]), which provides separately managed account and other services to Edwards and markets its investment-management services to unaffiliated mutual-fund firms, pension-fund providers, insurance companies and other financial institutions, including banks and brokerage firms.

(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. Financial information related to the Company's single business segment for each of the fiscal years ended February 28, 2006 and 2005, and February 29, 2004, is included in the consolidated financial statements and notes thereto, such information is hereby incorporated by reference.

(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"].

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 the Company. 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 Gallatin. The Company offers a non-discretionary advisory program, known as Portfolio Advisor and a discretionary advisory program known as FC Advisor. The Company also offers fee-based fund advisory programs that allow clients to select from

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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, and AGE Professional Fund Advisor. Additionally, the Company offers separately managed accounts and markets its investment-management services to unaffiliated mutual funds, pension-fund providers, insurance companies, and other financial institutions, including banks and brokerage firms. The Company, in addition to its advisory programs, offers a fee-based brokerage service known as Client Choice.

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").

Commissions

Commission revenues arise from activities in transaction-based accounts in listed and over-the-counter securities, mutual funds, insurance products, futures, and options. As commissions are transaction-based revenues, they are influenced by the number, size, and market value of client transactions and by product mix.

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.

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.

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

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

Options. Edwards acts as broker in the purchase and sale of option contracts to buy or sell securities, primarily common stocks and stock indexes.

Principal Transactions

Client transactions in the equity and fixed-income over-the-counter markets may be effected by Edwards acting as principal. 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.

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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 adviser 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 to other brokers and borrowings from banks, either unsecured or secured by the clients' collateral.

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 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 the private investments is subject to a higher degree of volatility and management's judgment 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.

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Competition

All aspects of the Company's business are highly competitive. The Company competes with large, well capitalized providers of financial services. Those companies include other securities firms and affiliates of banks and insurance companies. The Company also competes with a number of discount brokerage firms that offer lower levels of services. The Company believes its competitive advantages lie in its client-first philosophy, service, product offerings, quality of employees and strong reputation.

The Company's success is largely dependent on its ability to attract and retain qualified employees. These employees, particularly financial consultants, in turn bring new assets and capital management opportunities to the Company.

Employees

At February 28, 2006, the Company had 738 locations in 50 states, the District of Columbia, London, England, and Geneva, Switzerland and 15,480 full-time employees, including 6,824 financial consultants providing services for approximately 3,200,000 active client accounts.

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 adviser, and as an insurance agent. Edwards is also subject to various regulatory requirements imposed by the securities and commodities exchanges, the NASD, and other self regulatory organizations. The primary purpose of these requirements is to enhance the protection of customer assets. These rules and regulations affect all aspects of Edwards' operations, including 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.

Margin lending by Edwards is regulated by the Federal Reserve Board's restrictions on lending in connection with customer and proprietary purchases and short sales of securities, as well as securities borrowing and lending activities. Edwards is also required by NASD and NYSE rules to impose maintenance requirements on the value of securities contained in margin accounts. In many cases, Edwards' margin policies are more stringent than these rules.

As a registered broker-dealer and FCM, Edwards is subject to net capital rules administered by the SEC, CFTC, and various exchanges. Compliance with the capital requirements may limit Edwards' operations requiring the use of capital. Such requirements restrict the Company's ability to withdraw capital from Edwards, which in turn may limit its ability to pay dividends, repay debt or redeem or purchase shares of its own outstanding stock. Any change in such rules or the imposition of new rules affecting the scope, coverage, calculation, or amount of capital requirements, or a significant operating loss or any unusually large charge against capital, could adversely affect the Company's ability to pay dividends or to expand or maintain present business levels. In addition, such rules may require the Company to make substantial capital infusions into Edwards in order for

Edwards to comply with such rules, either in the form of cash or subordinated loans made in accordance with the requirements of the SEC's net capital rule. At February 28, 2006, Edwards' net capital of \$588 million was 27 percent of aggregate debit items and \$544 million in excess of the minimum required.

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 adviser. The Trust Company and A.G. Edwards & Sons (U.K.) Limited are also subject to minimum capital requirements by their respective regulators that may restrict the payment of cash dividends and advances to the Company. A.G. Edwards Capital, Inc. and Gallatin are registered with the SEC as investment advisers. Beaumont Insurance Company is regulated by the Vermont Department of Banking, Insurance, Securities and Health Care Administration.

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(d) Financial Information About Geographic Areas

Revenues from the Company's non-U.S. operations are currently not material. See Note 12 (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, proxy statements and any amendments to these reports filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., 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's web site is www.agedwards.com. The public can access the Company's Investor Relations web page by clicking on About A.G. Edwards and the Investor Relations link. The public can also access the Investor Relations web page directly at www.agedwards.com/public/content/sc/aboutage/ir/index.html. The Company makes available free of charge its most recent annual reports on Form 10-K, its quarterly reports on Form 10-Q for the current fiscal year, and its most recent proxy statement on its Investor Relations web page. 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. The Company also makes available, through its Investor Relations web page, via a link to the SEC's web site, current reports on Form 8-K and statements of beneficial ownership of the Company's equity securities filed by its directors, officers and others under Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act").

ITEM 1A. RISK FACTORS.

The Company could be exposed in the course of conducting its business operations to a variety of risks that are inherent to the financial services business. A summary of some of the major risks that could affect the Company's financial condition and results of operations is included below and should be considered carefully.

The Company's business operations and profitability might be adversely affected by market and economic conditions.

Overall market and economic conditions, which are beyond the Company's control and cannot be predicted with great certainty, generally have a direct impact on client asset valuations and trading activity. In an environment of adverse or uncertain market or economic conditions, the Company could experience decreased trading volumes, decreased fee-based and commission revenue, and decreased profitability.

The Company may not be able to successfully compete against the other companies within the financial services industry.

The financial services industry has been, and will likely continue to be, intensely competitive. The Company competes for business with companies having greater financial resources and with companies offering online and discount brokerage services. The Company generally competes on the basis of its strong reputation, quality advice and superior service, quality of employees, and product offerings. In the event that the Company is not able to successfully compete on one or more of these factors, it may face a reduction in market share, a reduction in revenues, and/or a reduction in profitability.

The Company may not be able to attract, develop, and retain highly qualified and productive employees.

The Company's employees are its most important assets, and competition for qualified employees is fiercely competitive, especially for financial consultants. If the Company cannot continue to attract and retain quality employees, or if the costs to attract and retain quality employees rise due to the competition, the Company's business operations and financial performance could be adversely impacted.

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The Company's business may be adversely affected if its reputation is damaged.

As a participant in the financial services industry, the Company must maintain a high-quality reputation in order to attract and retain customers and employees. If the Company fails, or appears to fail, to properly deal with the various issues (e.g., potential conflicts of interest or customer privacy) that could potentially harm its reputation, the Company could experience adverse effects to its business operations and its financial results.

The Company's business operations and financial condition could be adversely affected if it is unable to access funds in a timely or cost-effective manner.

Efficient access to funds is critical to the Company's business operations, particularly margin lending. The Company's funding needs are primarily met through cash generated from operations and cash obtained from external sources (e.g., bank lending and securities lending). The Company's access to this financing could be impaired by Company-specific factors, such as weakened opinion of the Company by external financing sources, or by factors affecting the financial services industry in general, such as a severe market disruption. An inability to access the necessary funds could negatively impact the Company's business activities and financial condition.

Failures in technology or operational processes could expose the Company to business disruptions, reduced financial results, litigation, and regulatory actions.

The Company relies on its systems and operational processes to help process numerous transactions on a daily basis across various different markets. In addition, the Company contracts with third-party vendors to conduct significant portions of its trade processing and back office processing. In the event of a breakdown in an operational process (e.g., human error or employee misconduct), a malfunction of the Company's systems or the third-party vendors' systems, or external events beyond the Company's control, such as a natural disaster, that could impact both the operational processes and systems, the Company could suffer business and financial losses and be subject to litigation and regulatory actions.

The Company could suffer financial losses if its securities inventories decline in value.

The Company maintains inventories of fixed-income and equity securities in order to facilitate customer securities transactions. While holding these securities in inventory, the Company is exposed to fluctuations in value of the security positions. If the valuations of the security positions decline while carried in the Company's inventory, the Company's financial performance could be adversely affected.

The Company could suffer adverse impacts to its business activities, financial performance, and reputation if it is subject to one or more significant regulatory actions.

As a member of the financial services industry, the Company's activities are subject to extensive regulation by federal and state regulatory bodies, securities exchanges, and other self-regulatory organizations. This regulation has been increasing and becoming more complex in recent years. One or more significant regulatory actions brought against the Company could result in censures, fines, civil or criminal liability, or temporary or permanent

prohibition from participating in certain types of business activities, any of which could have material adverse impacts on the Company's business operations, financial results, and reputation. New laws or regulations or changes to existing laws or regulations could also adversely impact the Company's business.

The Company could be negatively impacted as a result of litigation.

In the ordinary course of business, the Company is subjected to various legal actions. These include claims of recommending unsuitable investments to clients, unauthorized or excessive trading on behalf of clients, or human resource related claims by current or former employees. In the event that the Company is liable for significant settlements or awards, the Company's business operations, financial performance, and reputation could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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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 an office building in the St. Louis area, which is used primarily as a contingency planning facility. The Company also leases 26,800 square feet in lower Manhattan and 7,000 square feet in downtown Chicago for the Company's security and commodity trade-processing activities. The Company occupies 738 locations, which are, with a few exceptions, leased premises, throughout the United States as well as 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 resulting 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 sheet, statement of earnings or statement of cash flows of the Company, but could be material to the operating results in one or more periods.

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 have and 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 responded to requests for information concerning timing of mutual fund transactions in variable annuity sub accounts. The staff of the SEC has informed Edwards that it intends to recommend that a civil injunctive action be brought against Edwards with respect to mutual fund transactions occurring prior to October 2003 and alleged to involve market timing. Edwards has made a Wells submission stating why Edwards believes such action should not be brought.

The Commonwealth of Massachusetts filed in February 2005 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.

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 defending itself against 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, an 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 filed in November 2005 an administrative complaint against Edwards concerning the sale of certain mutual funds to IRA accounts in 2001 and 2002 for which certain mutual fund companies made additional cash payments alleged to total \$630,958 to Edwards for sales. The complaint seeks unspecified sanctions and restitution. Edwards is defending itself against the charges.

The Attorney General of South Carolina, Securities Division, filed an administrative proceeding in August 2005 against Edwards and two former employees in connection with actions taken from 1995 until 2002 involving securities transactions with residents of South Carolina by financial consultants in Edwards' Augusta, Georgia branch. In March 2004, Edwards agreed under a consent order with the Georgia Secretary of State's Securities and Business Regulation Division to make certain payments to the State of Georgia and to customers related to transactions in the Augusta, Georgia branch. Edwards has made payments in excess of \$37.1 million to customers and to the State of Georgia related to these matters. Edwards believes the actions involved in these matters were isolated to one branch and a limited number of financial consultants formerly with Edwards and had no connection with any other Edwards' office.

The NYSE and Edwards have reached preliminary agreement to resolve issues arising from examinations by the NYSE of Edwards from 2002 through 2005. The issues from the examinations include alleged failure to supervise charges related to the firm's Augusta, Georgia branch related to the matters described above, alleged failure to properly report customer complaints, and alleged failures to supervise Edwards' Client Choice accounts, including supervision of accounts with limited trading activity and accounts with concentrations of mutual funds. Client Choice accounts are brokerage accounts for which a fee, rather than commissions, are charged. The preliminary agreement, if it becomes final, would require Edwards without admitting or denying guilt to be subject to a censure, pay \$500,000 (a \$900,000 fine reduced by \$400,000 as a result of previously made payments pursuant to the consent order with the State of Georgia described above) and provide restitution to customers relating to overpayments in connection with Client Choice accounts which Edwards' currently estimates would be less than \$1 million.

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.

Edwards and other financial services firms have received and responded to information requests from the NYSE with respect to delivery of prospectuses to customers. Regulatory actions or claims may result from the information developed during the review.

The Division of Enforcement of the NASD has informed Edwards that it is considering recommending disciplinary action against the firm in connection with what is alleged to be the failure to establish adequate supervisory procedures related to the suitability of variable annuity products. Edwards has been offered the opportunity to submit a Wells-type submission to the NASD.

Edwards and other firms in the industry were asked by a number of regulators and exchanges to assess their policies, procedures and filings in response to electronic "blue sheet" inquiries. Blue sheet inquiries are inquiries concerning trading in particular securities. Edwards has filed its assessment. Regulatory actions or claims may result from information developed during the assessment.

A former employee has filed an action against the Company seeking class certification alleging, among other matters, violations of the Employee Retirement Income Security Act ("ERISA") by allegedly failing to minimize fees paid in connection with investments in the Company's Retirement and Profit Sharing Plan and by the selection of mutual funds for investments in the plan. The Company is defending itself against the suit.

Edwards is a defendant in a complaint filed in the United States District Court for the Southern District of California that seeks to be a class action on behalf of all financial consultants and trainees who worked for Edwards in California after June 30, 2000. The action, among other relief, seeks overtime pay for financial consultants, including trainees, on the basis that the financial consultants should be classified as non-exempt employees under California law, restitution of amounts that were deducted from commissions owed to financial consultants to repay advances made in prior months, payment for meal and rest breaks to which financial consultants are claimed to be entitled, and reimbursement for certain alleged business-related expenses paid by financial consultants. Edwards is defending itself against the suit. Several other financial services firms have been sued in California in similar actions, some of which have settled the actions for substantial amounts.

(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, 2006.

Executive Officers of the Company

The following table sets forth the executive officers of the Company as of May 1, 2006, as determined by the Board of Directors.

Name	Age	Office and Title	Year First Appointed Executive Officer of the Company
Robert L. Bagby	62	Chairman of the Board and Chief Executive Officer of the Company and Edwards since 2001. Vice Chairman of the Board of the Company and Edwards, Executive Vice	1991

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		President and Director of the Branch Division of Edwards prior to 2001. Employee of Edwards for 31 years. Director of Edwards since 1979.	
Ronald J. Kessler	58	Vice Chairman of the Board of the Company and Edwards since 2001. Executive Vice President of Edwards. Director of the Operations Division. Employee of Edwards for 38 years. Director of Edwards since 1989.	1996
Mary V. Atkin	51	Director of the Staff Division of Edwards since 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. Director of A.G. Edwards Technology Group Inc. since 1999. Employee of Edwards for 28 years. Director of Edwards since 1993.	1999
Gene M. Diederich	47	Executive Vice President of Edwards since 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 22 years. Director of Edwards since 2003.	2005
Charles J. Galli	65	Senior Vice President of Edwards. Regional Manager. Employee of Edwards for 27 years. Director of Edwards since 1990.	2001
Alfred E. Goldman	72	Corporate Vice President of Edwards, Director of Market Analysis of Edwards. Employee of Edwards for 46 years. Director of Edwards since 1967.	1991

Name	Age	Office and Title	Year First Appointed Executive Officer of the Company
Richard F. Grabish	57	Chairman and Chief Executive Officer of A.G. Edwards Trust Company since 2001. President of A.G. Edwards Trust Company since 2005 and from 1987 to 2001. Senior Vice President of Edwards. Assistant Director of the Sales and Marketing Division of Edwards. Employee of Edwards for 25 years. Director of Edwards	2001

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		since 1988.	
Douglas L. Kelly	57	Vice President, Secretary, Chief Financial Officer and Treasurer of the Company since 2001. Executive Vice President, Secretary, Director of the Law and Compliance Division of Edwards since 1994. Chief Financial Officer, Treasurer and Director of the Administration Division of Edwards since 2001. Employee of Edwards for 12 years. Director of Edwards since 1994.	1994
Thomas H. Martin Jr.	46	Assistant Treasurer of the Company since 1999. Vice President of the Company since 2002. Controller of the Company and Edwards. Vice President of Edwards. Employee of Edwards for 25 years.	1999
Peter M. Miller	48	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 17 years. Director of Edwards since 1997.	2002
John C. Parker	46	Executive Vice President of Edwards since 2003. Director and President of A.G. Edwards Technology Group, Inc. since November 2003. Senior Vice President of A.G. Edwards Technology Group, Inc. from 2001 to 2003. Employee of Edwards for four 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	60	Executive Vice President and Director of the Capital Markets Division of Edwards since 2001. Senior Vice President and Director of the Investment Banking Division of Edwards from 2000 to 2001. Director of Corporate Finance of Edwards from 1999 to 2001. Employee of Edwards for eight years. Director of Edwards since 2000.	2000
Joseph G. Porter	45	Assistant Treasurer and Assistant Secretary of the Company since 1999. 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 23 years. Director of Edwards	1999

since 2001.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Quarterly Financial Information
(Unaudited)

	Dividends	Stock Price	Net	Earnings	Net	Earnings	
	Declared per Share	Trading Range High-Low	Revenues (In millions)	Before Tax (In millions)	Earnings (In millions)	Per Share Diluted	Basic
Fiscal 2006 by Quarter							
First	\$0.16	\$45.70 - \$38.66	\$652.9	\$ 80.4	\$54.6	\$0.71	\$0.71
Second	\$0.16	\$47.00 - \$40.94	\$672.5	\$ 78.5	\$49.8	\$0.64	\$0.65
Third	\$0.20	\$46.73 - \$38.41	\$674.1	\$ 80.2	\$54.4	\$0.71	\$0.71
Fourth	\$0.20	\$48.04 - \$43.86	\$740.6	\$ 121.5	\$79.5	\$1.04	\$1.05
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

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

Issuer Purchases of Equity Securities

The following table presents the number of shares purchased monthly under the Company's stock repurchase programs for the three-month period ended February 28, 2006.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares That May Yet Be Purchased Under the Plans
December (12/1/05 - 12/31/05)	434,848	\$45.68	434,848	12,177,705
January (1/1/06 - 1/31/06)	452,374	\$46.86	452,374	11,725,331
February (2/1/06 - 2/28/06)	420,266	\$45.96	420,266	11,305,065
Total	1,307,488	\$46.18	1,307,488	

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. In May 2005, the Board of Directors authorized the repurchase of up to 5,000,000 shares of the Company's outstanding common stock solely to effect employee stock transactions in the Company's Retirement and Profit Sharing Plan during the period May 24, 2005, through May 31, 2008. As of February 28, 2006, there were 6,458,086 shares and 4,846,979 shares available to repurchase under the November 2004 and May 2005 plans, respectively.

On June 23, 2005, the Board of Directors determined not to renew the Stockholder Rights Plan, which expired by its terms on June 25, 2005. If a stockholder rights plan is adopted by the Board of Directors without prior stockholder approval, the Company has established a policy that such plan will expire within 12 months of its effective date unless ratified by the Company's stockholders.

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Annual Meeting

The 2006 Annual Meeting of Stockholders (the "Annual Meeting") will be held at the Company's headquarters, One North Jefferson, St. Louis, Missouri, on Thursday, June 22, 2006, at 10 a.m. CDT. The Notice of Annual Meeting, Proxy Statement and Proxy Voting Card are mailed on or around May 16, 2006, to each stockholder of record at the close of business on May 1, 2006. 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 director and their principal affiliations with other organizations as well as other information about the Company.

Dividend Payment

The next four anticipated dividend payment dates are July 3 and October 2, 2006, and January 2 and April 2, 2007. However, the payment and rate of dividends on the Company's common stock is subject to several factors including operating results, financial requirements of the Company, and the availability of funds from the Company's subsidiaries, which may be subject to restrictions under the net capital rules of the SEC and NYSE. Such restrictions have never become applicable with respect to the Company's dividend payments. See Note 6 (Net Capital Requirements) of the Notes to Consolidated Financial Statements for more information on the capital restrictions placed on the Company and its subsidiaries.

Stock Exchange Listing

The Company's stock is traded on the NYSE under the symbol AGE. The approximate number of stockholders on February 28, 2006, was 20,100. The approximate number of equity security holders 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
www.stockbny.com

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ITEM 6. SELECTED FINANCIAL DATA.

Consolidated Five-Year Summary

February 28, February 28, February 29, February 28, February 28,

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Year Ended	2006	2005	2004	2003	2002
(In thousands, except per share amounts)					
Revenues					
Asset management and service fees:					
Distribution fees	\$ 571,573	\$ 498,026	\$ 366,735	\$ 336,636	\$ 377,923
Fee-based accounts	386,585	323,769	246,943	225,888	220,315
Service fees	104,714	97,282	109,708	90,493	79,694
Total	1,062,872	919,077	723,386	653,017	677,932
Commissions:					
Listed securities	449,401	440,680	448,035	387,483	403,921
Mutual funds	242,883	259,179	260,518	201,567	214,339
Insurance	195,476	192,019	205,622	185,249	174,281
Over-the-counter securities	81,545	94,478	115,425	70,864	111,065
Futures	24,632	25,536	27,758	19,331	13,289
Options	23,779	22,274	23,669	23,485	28,453
Total	1,017,716	1,034,166	1,081,027	887,979	945,348
Principal transactions:					
Debt securities	131,284	178,395	217,224	252,688	246,131
Equities	78,826	75,504	79,662	58,436	73,553
Total	210,110	253,899	296,886	311,124	319,684
Investment banking:					
Underwriting fees and selling concessions					
Management fees	168,963	174,555	240,094	184,220	186,839
Total	65,434	71,067	81,767	66,960	69,590
Total	234,397	245,622	321,861	251,180	256,429
Interest:					
Margin account balances	138,466	107,611	74,662	86,189	150,365
Securities owned and deposits	42,871	21,132	21,470	20,474	23,451
Total	181,337	128,743	96,132	106,663	173,816
Other	44,334	30,288	6,384	10,239	6,592
Total Revenues	2,750,766	2,611,795	2,525,676	2,220,202	2,379,801
Interest expense	10,653	4,114	2,859	5,850	27,415
Net Revenues	2,740,113	2,607,681	2,522,817	2,214,352	2,352,386
Non-Interest Expenses					
Compensation and benefits	1,741,588	1,699,156	1,642,999	1,448,199	1,551,898
Communication and technology	236,379	241,830	272,047	282,603	295,353
Occupancy and equipment	144,114	151,426	137,617	134,149	133,240
Marketing and business development	71,635	65,682	53,262	45,649	47,434
Floor brokerage and clearance	21,073	21,341	22,495	22,464	21,912
Other	164,705	133,839	149,123	109,854	128,029
Restructuring	□	□	□	□	82,462
Total Non-Interest Expenses	2,379,494	2,313,274	2,277,543	2,042,918	2,260,328
Earnings Before Income Taxes	360,619	294,407	245,274	171,434	92,058
Income Taxes	125,058	107,933	85,789	52,606	20,557
Earnings before cumulative effect of accounting change					
change	235,561	186,474	159,485	118,828	71,501
Cumulative effect of accounting change, net of \$1,655 of income taxes					
	2,768	□	□	□	□
Net earnings	\$ 238,329	\$ 186,474	\$ 159,485	\$ 118,828	\$ 71,501

Year Ended	February 28, 2006	February 28, 2005	February 29, 2004	February 28, 2003	February 28, 2002
(In thousands, except per share amounts)					
Earnings per diluted share:					
Earnings before cumulative effect of accounting change	\$ 3.06	\$ 2.37	\$ 1.97	\$ 1.46	\$ 0.88
Cumulative effect of accounting change, net of income taxes*	0.04				
Earnings per diluted share	\$ 3.10	\$ 2.37	\$ 1.97	\$ 1.46	\$ 0.88
Per Share Data:					
Cash dividends	\$ 0.72	\$ 0.64	\$ 0.64	\$ 0.64	\$ 0.64
Book Value	\$ 25.13	\$ 23.21	\$ 22.08	\$ 20.92	\$ 20.42
Other Data:					
Total Assets	\$ 4,664,269	\$ 4,687,797	\$ 4,436,085	\$ 3,980,094	\$ 4,187,170
Stockholders' Equity	\$ 1,899,249	\$ 1,787,691	\$ 1,778,319	\$ 1,688,537	\$ 1,647,796
Cash Dividends	\$ 54,896	\$ 49,392	\$ 51,007	\$ 51,034	\$ 51,043
Pre-tax Return on Average Equity	19.8%	16.5%	14.1%	10.3%	5.6%
Return on Average Equity	12.9%	10.5%	9.2%	7.1%	4.4%
Pre-tax Net Earnings as a Percent of Net Revenues					
Average Common and Common Equivalent	13.2%	11.3%	9.7%	7.7%	3.9%
Shares Outstanding (Diluted)	76,984	78,766	80,990	81,177	81,282

*See Note 2 (Employee Stock Plans) of the Notes to Consolidated Financial Statements for a detailed discussion of the Company's Stock-Based Compensation Plan.

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

(Year references, including those in charts, are to fiscal years ended February 28(29) unless otherwise specified)

Introduction

Headquartered in St. Louis, Missouri, A.G. Edwards, Inc. is a financial services holding company whose primary subsidiary is the national investment firm of A.G. Edwards & Sons, Inc. (Edwards), that is a successor to a partnership founded in 1887. 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. The total number of full-time employees increased by 90 to end the year at 15,480 (1 percent).

The Company's client base is comprised mostly of individual investors and includes corporations, governments, municipalities and financial institutions. The Company serves its clients through one of the securities industry's largest branch-office networks with locations in all 50 states, the District of Columbia, London, England and Geneva, Switzerland. The Company added 17 locations during 2006, increasing its total to 738.

The Company's total number of financial consultants declined 66 to end the year at 6,824. Total client assets at the end of 2006 were \$343 billion, an increase of \$24 billion (8 percent) when compared to the end of 2005. Average client assets per financial consultant at the end of 2006 were \$50.3 million, an increase of \$4 million (9 percent).

Executive Summary

Economic/Market Conditions

During 2006, the financial markets experienced a variety of significant events that contributed to their volatility and general lack of direction for much of the year, in spite of the fact the U.S. gross domestic product grew 3.5 percent in calendar 2005. Among those events, the Federal Reserve lengthened its string of interest-rate increases, nearly doubling the Fed Funds rate from 2.5 percent to 4.5 percent during the Company's fiscal year and

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causing some investors to wonder about the longer-term health of the U.S. economy. These worries were further compounded in late December when yields on two-year U.S. Treasury notes became higher than those of 10-year U.S. Treasury notes, a situation known as an inverted yield curve and one that has preceded several economic recessions. Oil prices also weighed heavily on the financial markets, as crude oil spiked from roughly \$52 per barrel at the start of fiscal 2006 to nearly \$71 at its peak before settling to \$61 at the end of the fiscal year. During the August-September timeframe, oil prices and economic concerns were agitated by the impact of hurricanes that severely affected the Gulf Coast region. The markets were also faced with reacting to terrorist actions in England, Iraq, Jordan and other parts of the Middle East.

While the major market indices posted increases at the end of the fiscal year, they did not make their most significant gains until the fourth quarter. The Standard & Poor's 500 Index (S&P 500) increased 77 points (6 percent), but increased 31 points in the fourth quarter alone to finish the fiscal year at 1,281. The Dow Jones Industrial Average was essentially flat through the first three quarters before rising 227 points (2 percent) for the fiscal year to close at 10,993. Only the Nasdaq Composite Index showed steady increases throughout the fiscal year, gaining 230 points (11 percent) to close at 2,281.

Regulatory Environment

During 2006, the Securities and Exchange Commission (SEC), the New York Stock Exchange (NYSE), the National Association of Securities Dealers (NASD) and other federal and state regulators added or revised various rules and regulations for the securities industry. Of particular note, the SEC adopted rules effective April 15, 2005, with compliance dates between April 15, 2005, and January 31, 2006, concerning when broker-dealers providing advice will and will not be exempted from the Investment Advisers Act of 1940 (the Advisers Act). The rules 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.

Many firms in the securities industry were either required to enhance or voluntarily enhanced disclosures on the various forms of compensation earned in connection with the sale of certain investment products such as mutual funds, annuities, 529 college savings plans and insurance. Additionally, the Company implemented new NYSE and NASD rules governing the securities industry's documentation, testing and reporting of supervisory internal controls, which are designed to prevent fraud, minimize errors, promote operating efficiency and reasonably ensure compliance with regulatory requirements and established Company policies.

As with most other publicly held companies, the Company was subject to the requirements of the Sarbanes-Oxley Act of 2002, particularly as it pertained to internal control over financial reporting. (See the Controls and Procedures section, Part II, Item 9A, for a detailed discussion of the Company's report on internal control over financial reporting.)

Company Performance Summary

Overall, for 2006, the Company posted its fourth consecutive year of increased net earnings, earnings per share, pre-tax profit margin and pre-tax return on average equity, and experienced its third consecutive year of increased net revenues.

In 2006, the Company saw for the first time in its history a year in which commission revenues were not the largest component of net revenues. Asset-management and service-fee revenues became the largest revenue source, contributing 39 percent of the Company's net revenues as compared to commissions, which contributed 37 percent. In addition to growing fee revenue from client assets in certain individual investments, the Company believes this change reflects a natural migration by clients toward fee-based programs and services to diversify their portfolios. The Company has responded to clients' interests by broadening its array of fee-based programs and services to enhance the value of the full-service brokerage relationship.

During 2006, client assets in fee-based accounts grew 22 percent, more than double the growth rate of total client assets, which increased 8 percent.

Additionally on the revenue side, the Company's 2006 results were positively influenced by growth in net interest revenues, which benefited from multiple increases in the prime rate, resulting in higher interest rates charged on client-margin balances although client margin balances declined modestly.

On the expense side, compensation and benefits expenses in 2006 increased as a result of higher earnings and higher commissionable revenue generated by the Company's financial consultants. As a partial offset to this increase, the Company posted its fourth consecutive year of declines in its communication and technology expenses. The 2006 communication and technology expense decline primarily was driven by the completion and implementation of various technology projects under the Company's Gateway Initiative (see the "Liquidity and Capital Resources" section for additional discussion about the Gateway Initiative).

The Company's results for 2006 compared to those for 2005:

Net earnings □ Increased \$52 million (28 percent) to \$238 million
Diluted earnings per share □ Increased \$0.73 (31 percent) to \$3.10
Net revenues □ Increased \$132 million (5 percent) to \$2.7 billion
Pre-tax profit margin □ Increased from 11.3 percent to 13.2 percent

The Company's results for 2005 compared to those for 2004:

Net earnings □ Increased \$27 million (17 percent) to \$186 million
Diluted earnings per share □ Increased \$0.40 (20 percent) to \$2.37
Net revenues □ Increased \$85 million (3 percent) to \$2.6 billion
Pre-tax profit margin □ Increased from 9.7 percent to 11.3 percent

The results for 2006 included \$5 million in revenue for gains on the sale of shares in the Chicago Board of Trade (CBOT), \$8 million of gains on Chicago Mercantile Exchange shares, and a \$3 million gain on the sale of real estate. The 2006 results also reflected \$6 million in tax benefits resulting from the resolution of certain tax matters, including \$3 million in tax benefits from the resolution of tax matters related to technology research and development tax credits associated with the Company's Gateway Initiative.

In addition, the Company previously disclosed its March 1, 2005, early adoption of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share Based Payment" (SFAS No. 123R). As a result of this adoption, the Company was required to recognize in the first quarter of 2006 a one-time, \$3 million after-tax benefit related to estimated future forfeitures of previously issued restricted-stock awards that were invested as

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of March 1, 2005. The adoption of SFAS No. 123R additionally resulted in no expense for stock awards being recognized in 2006. Stock awards granted related to 2006 will be expensed over their service period, generally three years, beginning in 2007. See Note 2 (Employee Stock Plans) of the Notes to Consolidated Financial Statements for further discussion. The operating results for 2005 and 2004 included restricted stock-award expense of \$35 million and \$31 million, respectively.

The results for 2005 additionally included a \$10 million charge in occupancy and equipment expenses, which represents the cumulative effect of correcting the recognition period for rent-escalation clauses and free-rent periods included in certain branch-office leases. The results for 2005 also included 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 2005 and were not material to the quarter, the year, or any prior period's consolidated financial information.

In both the 2006 vs. 2005 and the 2005 vs. 2004 comparisons, the Company's results followed similar patterns: a general increase in net revenues paced by record results in asset-management and service-fee revenues, and growing net interest revenues, coupled with a decrease in communication and technology expenses. Compensation expenses increased in both year-over-year comparisons based on higher commissionable revenue and the Company's increased profitability. A detailed discussion of the Company's results of operations follows.

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)	2006 vs. 2005		2005 vs. 2004	
Revenues				
Asset management and service fees	\$ 143,795	16%	\$ 195,691	27%
Commissions	(16,450)	(2)	(46,861)	(4)
Principal transactions	(43,789)	(17)	(42,987)	(14)
Investment banking	(11,225)	(5)	(76,239)	(24)
Interest	52,594	41	32,611	34
Other	14,046	46	23,904	374
Total Revenues				