

EDWARDS A G INC
Form 10-K
April 27, 2007

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, 2007
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 |
|--------------------------------|--|
| COMMON STOCK, \$1 PAR VALUE | NEW YORK STOCK EXCHANGE |

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:

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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 .

As of August 31, 2006, 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 \$4.0 billion.

At April 23, 2007, there were 75,995,890 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 will be filed with the Securities and Exchange Commission (SEC) in connection with the Company's Annual Meeting of Stockholders to be held June 21, 2007, (the Company's 2007 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. (the "Company"), 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 services, 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. (the "NASD") and the Securities Investor Protection Corporation (the "SIPC"). In addition, Edwards has memberships on several domestic commodity exchanges and is registered with the Commodity Futures Trading Commission (the "CFTC") as a futures commission merchant (the "FCM"). In February 2007, Edwards introduced its Federal Depository Insurance Corporation (the "FDIC")-insured bank deposit program (the "AGE Bank Deposit Program") to certain clients as part of a multi-stage rollout to all eligible clients.

A.G. Edwards Trust Company FSB (the "Trust Company") is a federally chartered savings bank that provides investment advisory, portfolio management and trust services. In December 2006, the Trust Company received approval from the Office of Thrift Supervision (the "OTS") to expand its powers to be able to accept time and demand deposits so it can participate, along with several other FDIC-insured banks, in the AGE Bank Deposit Program.

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. Gallatin Asset Management, Inc. (the "Gallatin") 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, 2007, 2006, and 2005, 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.

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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 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 through Gallatin markets its investment-management services to unaffiliated mutual funds, pension-fund providers, insurance companies, and other financial institutions, including banks and brokerage firms.

Edwards has offered clients a fee-based brokerage account known as Client Choice. As a result of a recent court decision, Edwards has stopped opening new Client Choice accounts and is evaluating the status of existing accounts. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

Edwards offers the UltraAsset Account and the Cash Convenience Account, which combine a full-service brokerage account with a bank depository account. These programs provide for the automatic investment of customer free credit balances in the AGE Bank Deposit Program or, if a client elects, in one of several tax-exempt money market funds. Interest is not paid on uninvested credit balances held in client accounts. In addition, the UltraAsset Account allows clients access to their margin and depository or money market accounts through the use of debit card 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.

Equities. 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. 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 and Options. Edwards acts as broker in the purchase and sale of managed futures, futures contracts, options on futures contracts and option contracts to buy and sell securities, primarily common stock and stock indexes. These contracts cover agricultural products, precious metals, currency, interest rate, energy and stock index futures.

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. Corporate finance activities are focused on three industry groups: financial institutions and real estate, energy, and emerging growth. 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. 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.

Net Interest Revenue

Interest revenue is derived primarily from financing clients' margin transactions. These revenues are based largely on the amount of client margin balances and the rate of interest charged on these balances. 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 net loans of the clients' collateral to other brokers and borrowings from banks, either unsecured or secured by the clients' collateral. The Company also earns revenue from interest and dividend payments on inventory held for sale to clients and short-term investments.

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.

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.

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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, 2007, the Company had 744 locations in 50 states, the District of Columbia, London, England, and Geneva, Switzerland and 15,338 full-time employees, including 6,618 financial consultants providing services for approximately 3,200,000 active client accounts.

Regulation

The Company as a participant in the financial services business is regulated by federal and state regulatory agencies, self-regulatory organizations and securities exchanges and by foreign governmental agencies and regulatory bodies. Most of these regulations are designed to protect customers and their assets together with integrity of the markets rather than protecting the Company, its shareholders or creditors. Under certain circumstances, these rules may limit the ability of the Company to make withdrawals of capital from subsidiaries or for the subsidiaries to pay dividends to the Company. In addition, the Company because its stock is publicly traded, is subject to the Sarbanes-Oxley Act of 2002 and other laws together with regulations of the SEC and the New York Stock Exchange ("NYSE") governing public disclosure, corporate governance, internal controls and the roles of internal and external auditors and legal counsel.

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Edwards, as a broker-dealer and a FCM, is subject to various federal and state laws that regulate virtually all of 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, the NASD and the NYSE. 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. Violations of these laws, rules and regulations may result in limitations on certain aspects of Edwards' regulated activities, as well as proceedings of a civil or criminal nature against the firm or employees that could result in the issuance of cease and desist orders, censures, fines or other monetary penalties or the suspension or expulsion from the securities business of the firm, its officers or its employees.

Margin lending by Edwards and other broker-dealers is regulated by the Federal Reserve Board which restricts lending in connection with customer and proprietary purchases and short sales of securities as well as securities borrowing and lending activities. The NASD and NYSE also by rule require minimum maintenance requirements on the value of securities contained in margin accounts. Edwards' margin policies are generally more stringent than these rules.

The commodity futures and commodity options industry in the United States is subject to regulation under the Commodity Exchange Act and by the CFTC charged with administering the act. Edwards is registered with the CFTC. In addition, various self-regulatory organizations including the Chicago Board of Trade ("CBOT") and the Chicago Mercantile Exchange ("CME"), other futures exchanges and the National Futures Association govern the commodity futures and commodity options businesses.

As a registered broker-dealer, Edwards is subject to net capital rules administered by the SEC and the 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. See Note 6 (Net Capital Requirements) of the Notes to the Consolidated Financial Statements for a discussion of Edwards' net capital at February 28, 2007.

The Trust Company and 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.

The Trust Company is a federal savings bank and as such is regulated by the OTS and the FDIC. The OTS imposes minimum capital requirements upon the Trust Company. Until December 2006, the Trust Company was authorized only to accept trust and custodian accounts and not to accept deposits or make loans. In December 2006, the Trust Company received authorization to accept time and demand deposits. The Trust Company currently plans to begin accepting demand deposits in mid-calendar 2007. The acceptance of time and demand deposits will subject the Trust Company to increased regulatory requirements including for additional capital and those governing accepting demand deposits and investing the funds received. A.G. Edwards, Inc. is registered as a holding company with the OTS as a result of owning the Trust Company.

A.G. Edwards & Sons (U.K.) Limited is registered under the laws of the United Kingdom and Switzerland and is regulated as a securities broker-dealer by the Financial Services Authority. A.G. Edwards Capital, Inc. and Gallatin are each 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.

The USA PATRIOT Act of 2001 imposes obligations to detect and deter money laundering and for transparency of financial transactions on broker-dealers and other financial services companies including Edwards and the Trust Company. The obligations include requirements to verify client identification at account opening and to monitor client transactions and report suspicious activities. Anti-money laundering laws outside the United States

impose similar requirements and particularly affect A.G. Edwards & Sons (U.K.) Limited. The anti-money laundering requirements have required the development of extensive internal practices, procedures and controls and any failure could subject the Company, its employees or both to substantial liabilities and fines.

(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.

In the course of conducting business, the Company faces a variety of risks that are inherent to the financial services business. The following is a summary of the risks that management believes are the most significant and could affect the Company's financial condition.

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Developments in market and economic conditions could adversely affect the Company's business operations and profitability.

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 generally competes on the basis of its strong reputation, client-first philosophy and superior service, quality of employees, and range of product and service offerings. The Company competes for business with financial services firms that have greater financial resources and global operations, allowing them to potentially take on more risk and earn higher returns. The Company also competes with companies offering online and discount brokerage services and with banks and bank-affiliated brokerage companies that increasingly are using

brokerage services, sometimes at reduced or no cost to customers, to attract clients for bank services. In the event that the Company cannot successfully compete with these financial services firms on one or more of the previously mentioned 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 successful financial consultants. If the Company cannot continue to attract and retain high quality employees, or if the costs to attract and retain high quality employees rise due to competition, the Company's business operations and financial performance could be adversely impacted.

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 clients and employees. If the Company fails, or appears to fail, to conduct its business activities in a fair and ethical manner or to associate with appropriate clients and counterparties, the Company could experience adverse effects to its business operations and 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 and trading activities. 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 at a reasonable cost could negatively impact the Company's business activities and financial condition.

External events and failures in technology or in 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 process numerous transactions on a daily basis across various different markets. In addition, the Company relies on 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 an inability to recover from external events beyond the Company's control, such as a natural disaster, the Company could suffer business and financial losses and be subject to litigation and regulatory actions.

The Company's financial performance could be adversely impacted by fluctuations in interest rates and/or equity prices.

The Company is exposed to variability in the value of financial instruments caused by volatility in interest rates and/or equity prices. The primary source of this exposure is in the inventories of fixed-income and equity securities that the Company maintains in order to facilitate customer securities transactions. The Company could experience financial losses if adverse movements in interest rates and/or equity prices cause a decline in the valuations of its securities inventories.

The Company's financial performance could be adversely impacted by credit exposures.

The Company is exposed to the possibility that a client or counterparty is unable to meet its obligations to the Company, or that the value of collateral supporting an obligation to the firm declines such that the collateral is no longer sufficient to support the obligation. The Company's exposure primarily results from its activities relating to

margin lending, to its role as a counterparty to financial transactions, and to its securities inventories. The lack of performance by clients and/or counterparties could adversely impact the Company's profitability.

The Company's reputation and business performance could be adversely impacted if it is unable to sufficiently protect the critical information of its clients.

In order to provide effective service to clients, the Company gathers clients' personal information in the normal course of business. If clients perceive that the Company does not maintain this personal information in a secure manner they may not be willing to do business with the Company. If there is a breach in the Company's protection of clients' personal information through a breach in the information technology network or otherwise, the Company could suffer significant damage to its reputation and be subject to litigation and regulatory actions.

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.

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 35,700 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 744 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. The Company establishes reserves for potential losses to the extent that such matters are probable and can be estimated, in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies." As litigation and the resolution of regulatory matters are inherently unpredictable, the Company cannot predict with certainty the ultimate loss or range of loss where there is only a reasonable possibility that a loss may be incurred. The Company believes, based on current knowledge and after consultation with legal counsel, that the resolution of loss contingencies will not have a material adverse effect on the consolidated balance sheet, statement of earnings or statement of cash flows of the Company. However, the outcome of such matters could be material to the Company's operating results and cash flows for a future or interim periods, depending, among other things, on the results of operations for these periods.

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 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.

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.

The State of Illinois Secretary of State Securities Department sent a Notice of Hearing dated December 1, 2006 that alleges, among other matters, that Edwards engaged in activities to facilitate mutual fund market timing on behalf of certain clients from January 2001 to October 2003 and had inadequate procedures to detect and prevent late trading of mutual funds in violation of the Illinois Securities Law of 1953. The matter is set for hearing in May 2007. 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 defending itself against the suit.

The NASD in fiscal year 2006 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 did not accept the settlement.

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 matter is currently being tried before a hearing panel under the procedures of the NASD.

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. Edwards has reached oral agreement to resolve this matter and matters relating to an Edwards branch in South Carolina by payment of \$575,000. In March 2004, Edwards agreed under a consent order with the Georgia

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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 \$38.2 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.

On August 7, 2006, NYSE Regulation, Inc. censured and fined Edwards \$900,000 (with a previous payment to another regulator deemed to satisfy \$400,000 of the fine) for improperly maintaining customers in non-managed fee-based accounts, for failing to supervise a branch manager and for failing to properly report certain statistical information concerning customer complaints. Edwards made restitution to certain clients of fees previously charged in the amount of \$830,000. 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, is charged.

Edwards and other financial services firms were asked by the SEC to voluntarily review the supervision and operation of certain auction rate securities transactions. Thereafter, on May 31, 2006, the SEC instituted proceedings against Edwards and 14 other financial firms alleging that each of the firms had violated Section 17(a)(2) of the Securities Act of 1933 in connection with transactions involving auction rate securities. Simultaneously with the institution of such proceedings, each of the firms, without admitting or denying the findings of the SEC, consented to censure, undertakings and monetary penalties. Edwards was required to pay \$125,000.

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 by the NYSE.

The Division of Enforcement of the NASD had informed Edwards that it was considering recommending disciplinary action against the firm in connection with what was alleged to be the failure to establish adequate supervisory procedures related to the suitability of variable annuity products. In April 2007, Edwards was informed that the Division of Enforcement of the NASD closed their investigation of this matter and will not recommend the commencement of disciplinary action.

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 filed an action in September 2005 against the Company seeking class certification alleging, among other matters, violations of the Employee Retirement Income Security Act 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 rest breaks to which financial consultants are claimed to be entitled, and reimbursement for certain alleged business-related expenses paid by financial consultants. Several other financial services firms have been sued in California in similar actions, some of which have settled the actions for substantial amounts. Other financial firms have announced changes in compensation for and charges to financial consultants as the result of such litigation. Edwards is evaluating whether changes will be made to compensation for and charges to financial consultants. Any such changes might increase

expenses for Edwards.

In addition, Edwards has been named as defendants in separate lawsuits filed in the United States District Court for the Northern District of New York, the United States District Court of New Jersey, the United States District Court for the District of Oregon, the United States District Court for the Western District of Pennsylvania, and the Court of Common Pleas of Allegheny County Pennsylvania. Each of the suits seeks to be a class action on behalf of defined groups of financial consultants or employees being trained to be financial consultants during specified periods that vary in each lawsuit. Each of the suits seeks, among other relief, overtime pay for the purported class members and two of the suits seek reimbursement of certain amounts deducted from commissions allegedly owed the employees or paid by the employees.

The Division of Enforcement of the NYSE has informed Edwards that it is considering bringing a formal disciplinary action against Edwards relating to Edwards' stock loan business. The disciplinary action being considered is stated, among other matters, to relate to alleged failures to detect and prevent stock loan personnel from engaging in away-from-market stock loan transactions and from engaging in business dealings with finders in violation of firm policy, failing to detect and prevent conflicts of interest between stock loan personnel and their counterparties, failing to ensure adequate review of electronic communications and to retain facsimile transmissions related to the stock loan business and failing to review certain employee trades. Edwards has been offered the opportunity to make a Wells-type submission.

(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, 2007.

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth the executive officers of the Company as of April 27, 2007, as determined by the Board of Directors.

| Name | Age | Office and Title | Year First Appointed Executive Officer of the Company |
|-------------------|-----|---|---|
| Robert L. Bagby | 63 | 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 32 years. Director of Edwards since 1979. | 1991 |
| Ronald J. Kessler | 59 | Vice Chairman of the Board of the Company and Edwards since 2001. Executive Vice President and Director of the Operations Division of Edwards. Employee of Edwards for 39 years. Director of Edwards since 1989. | 1996 |
| Mary V. Atkin | 52 | Director of the Staff Division of Edwards since 2005. Executive Vice President of Edwards since 2001. | 1999 |

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|--|--|--|--|
| | | 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 29 years. Director of Edwards since 1993. | |
|--|--|--|--|

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| Name | Age | Office and Title | Year First Appointed Executive Officer of the Company |
|--------------------|-----|---|---|
| Gene M. Diederich | 48 | 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 | 66 | Senior Vice President of Edwards. Regional Manager. Employee of Edwards for 28 years. Director of Edwards since 1990. | 2001 |
| Alfred E. Goldman | 73 | Corporate Vice President of Edwards, Director of Market Analysis of Edwards. Employee of Edwards for 47 years. Director of Edwards since 1967. | 1991 |
| Richard F. Grabish | 58 | 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 26 years. Director of Edwards since 1988. | 2001 |
| Douglas L. Kelly | 58 | 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 13 years. Director of Edwards since 1994. | 1994 |
| Peter M. Miller | 49 | Executive Vice President and Director of the Sales and Marketing Division of | 2002 |

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|------------------|----|---|------|
| | | Edwards since 2002. Regional Manager of Edwards from 1995 to 2002. Employee of Edwards for 18 years. Director of Edwards since 1997. | |
| John C. Parker | 47 | 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 five years. Director of Edwards since 2002. | 2003 |
| Paul F. Pautler | 61 | 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 nine years. Director of Edwards since 2000. | 2000 |
| Joseph G. Porter | 46 | 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 24 years. Director of Edwards since 2001. | 1999 |

PART II

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

Quarterly Information
(Unaudited)

| | Dividends Declared | Stock Price Sales Price | Net Revenues | Earnings Before Tax | Net Earnings | Earnings Per Share | |
|-------------------------------|---------------------------|--------------------------------|----------------------|----------------------------|----------------------|---------------------------|--------------|
| | per Share | High-Low | (In millions) | (In millions) | (In millions) | Diluted | Basic |
| Fiscal 2007 by Quarter | | | | | | | |
| First | \$0.20 | \$54.56 - \$43.17 | \$764.7 | \$ 122.4 | \$ 77.6 | \$1.01 | \$1.0 |
| Second | \$0.20 | \$56.17 - \$47.77 | \$713.3 | \$ 104.4 | \$ 66.3 | \$0.86 | \$0.8 |
| Third | \$0.20 | \$59.93 - \$51.55 | \$767.5 | \$ 124.0 | \$ 78.3 | \$1.03 | \$1.0 |
| Fourth | \$0.20 | \$69.04 - \$56.70 | \$865.0 | \$ 169.8 | \$ 109.2 | \$1.44 | \$1.4 |

Fiscal 2006* by Quarter

| | | | | | | | |
|--------|--------|-------------------|---------|----------|---------|--------|-------|
| First | \$0.16 | \$45.70 - \$38.66 | \$652.9 | \$ 75.9 | \$ 51.8 | \$0.67 | \$0.6 |
| Second | \$0.16 | \$47.00 - \$40.94 | \$672.5 | \$ 74.3 | \$ 47.2 | \$0.61 | \$0.6 |
| Third | \$0.20 | \$46.73 - \$38.41 | \$674.1 | \$ 75.8 | \$ 51.7 | \$0.67 | \$0.6 |
| Fourth | \$0.20 | \$48.04 - \$43.86 | \$740.6 | \$ 115.0 | \$ 75.4 | \$0.99 | \$0.9 |

See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information on the components presented above.

*Fiscal 2006 amounts have been adjusted due to a change in accounting method. 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.

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, 2007.

| 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 (12/1/06 - 12/31/06) | 361,356 | \$61.15 | 361,356 | 4,577,210 |
| January (1/1/07 - 1/31/07) | 354,590 | \$66.26 | 354,590 | 14,222,620 |
| February (2/1/07 - 2/28/07) | 288,246 | \$66.99 | 288,246 | 13,934,374 |
| Total | 1,004,192 | \$64.63 | 1,004,192 | |

In November 2004, the Company's 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. The Company purchased 6,203,611 shares under the November 19, 2004 authorization. In November 2006, the Company's Board of Directors authorized the repurchase of up to 10,000,000 shares of the Company's outstanding stock during the period January 1, 2007 through December 31, 2008. At February 28, 2007, the Company had up to 9,419,832 shares available for repurchase under the January 2007 authorization.

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. At February 28, 2007, the Company had up to 4,514,542 shares available to repurchase under this authorization.

Annual Meeting

The 2007 Annual Meeting of Stockholders (the "Annual Meeting") will be held at the Company's headquarters, One North Jefferson, St. Louis, Missouri, on Thursday, June 21, 2007, at 10 a.m. CDT. The Notice of Annual Meeting, Proxy Statement and Proxy Voting Card will be mailed on or around May 15, 2007, to each stockholder

of record at the close of business on May 1, 2007. 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 2 and October 1, 2007, and January 2 and April 1, 2008. 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 and the capital adequacy requirements of the OTS. 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 common stock is listed on the NYSE under the symbol AGE. The approximate number of stockholders on February 28, 2007, was 19,300. The approximate number of stock 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
 1-800-524-4458
 1-212-815-3700 (Outside the U.S. and Canada)
 1-888-269-5221 (Hearing Impaired ☐ TTY Phone)

e-mail: shareowners@bankofny.com
 website: <https://www.stockbny.com>

Address Shareholder Inquiries to:
 The Bank of New York
 Investor Services Department
 P.O. Box 11258
 New York, New York 10286-1258

Send Certificates for Transfer and Address Changes to:
 Receive and Deliver Department
 P.O. Box 11002
 New York, NY 10286-1002

ITEM 6. SELECTED FINANCIAL DATA.

Consolidated Five-Year Summary

| Year Ended | February 28, 2007 | February 28, 2006 (As Adjusted)* | February 28, 2005 | February 29, 2004 | February 28, 2003 |
|------------------------------------|-------------------------|--|-------------------------|-------------------------|-------------------------|
| Revenues | | | | | |
| Asset management and service fees: | | | | | |
| Distribution fees | \$ 684,290 | \$ 571,573 | \$ 498,026 | \$ 366,735 | \$ 336,636 |
| Fee-based accounts | 474,532 | 386,585 | 323,769 | 246,943 | 225,888 |

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| | | | | | |
|--------------|-----------|-----------|--------|---------|--------|
| Service fees | 107,240 | 104,714 | 97,282 | 109,708 | 90,493 |
| Total | 1,266,062 | 1,062,872 | | | |