EDWARDS A G INC
Form DEF 14A
May 13, 2002

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [_]

Check the appropriate box:

[_] Preliminary Proxy Statement
[_] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[_] Definitive Additional Materials
[_] Soliciting Material Under Rule 14a-12

A.G. Edwards, Inc.
(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[_] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD JUNE 20, 2002

The Annual Meeting of the Stockholders of A.G. Edwards, Inc. (the Company) will be held at the home office of the Company, One North Jefferson Avenue, St. Louis, Missouri, on Thursday, June 20, 2002, at 10:00 a.m., local time, for the following purposes:

1. To elect two directors;

2. To consider and act on a proposal to approve the Company s 2002 Employee Stock Purchase Plan;

3. To ratify the appointment of Deloitte &Touche LLP as independent auditors of the Company for the fiscal year ending February 28, 2003; and

4. To transact such other business as may properly come before the annual meeting and any adjournments thereof.

Only stockholders of the Company of record as of the close of business on May 1, 2002 will be entitled to notice of, and to vote at, the annual meeting and any adjournments thereof.

Stockholders may vote their shares by using the telephone or the Internet by following the instructions on the accompanying proxy or may sign, date and return the accompanying proxy in the enclosed business reply envelope. If you later desire to revoke your proxy, you may do so at any time before the voting at the meeting.

Douglas L. Kelly
Secretary

May 13, 2002

PROXY STATEMENT
GENERAL INFORMATION

The enclosed form of proxy is solicited by and on behalf of the Board of Directors of A.G. Edwards, Inc. (the Company) for use at the Annual Meeting of Stockholders to be held on June 20, 2002 (the "2002 Annual Meeting) and at any adjournments thereof. The stockholder giving the proxy has the power to revoke it any time before it is exercised by notice in writing to the Secretary of the Company at the Company s principal executive offices at One North Jefferson Avenue, St. Louis, Missouri 63103, by properly submitting to the Company a duly executed proxy bearing a later date, or by attending the meeting and voting in person. The proxy will be voted as specified by the stockholder in the spaces provided or, if no specification is made, it will be voted for Proposals 1, 2 and 3.

This Proxy Statement and form of proxy are first being mailed to the stockholders of the Company on or about May 13, 2002. The solicitation of proxies is being made primarily by the use of the mails, but also may be made by telephone, Internet or personally by the officers and employees of the Company and its subsidiaries. The cost of preparing and delivering this Proxy Statement, its accompanying materials and any supplementary solicitations will be borne by the Company.

Only stockholders of record at the close of business on May 1, 2002 are entitled to notice of, and to vote at, the 2002 Annual Meeting and any adjournments thereof. On May 1, 2002 the Company had outstanding 80,615,621 shares of Common Stock. Each outstanding share is entitled to one vote on each director position, and each other matter, to be voted on at the 2002 Annual Meeting. A majority of the outstanding shares of Common Stock present in person or by proxy will constitute a quorum for the transaction of business at the 2002 Annual Meeting. Votes cast by proxy or in person at the 2002 Annual Meeting will be tabulated by the inspectors of election appointed by the Board of Directors for the meeting.

Shares which are entitled to vote but which are not voted at the direction of the beneficial owner (Abstentions) and shares represented by proxies or ballots which are marked withhold authority with respect to the election of any one or more nominees for election as directors will be counted for the purpose of determining whether there is a quorum for the transaction of business at the 2002 Annual Meeting.

Abstentions may be specified on Proposal 2 to approve the Company s 2002 Employee Stock Purchase Plan and on Proposal 3 to ratify the appointment of independent auditors, but not on Proposal 1 to elect directors.

The affirmative vote of a plurality of the shares represented at the meeting is required to elect directors. Plurality means that the nominees who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be elected at the 2002 Annual Meeting. Consequently, any shares represented at the 2002 Annual Meeting, but not voted for any reason, have no impact on the election of directors.

The affirmative vote of a majority of the shares represented at the meeting is required to approve Proposal 2, the adoption of the Company s 2002 Employee Stock Purchase Plan, and to approve Proposal 3 to ratify the appointment of the independent auditors. Broker non-votes will not be counted with respect to, and will have no effect on, whether the stockholders approve these proposals. Abstentions, however, are counted in determining whether the stockholders have approved these proposals and, thus, have the effect of a vote against the proposals.

PROPOSAL 1: ELECTION OF DIRECTORS

Committees and Meetings of the Board of Directors

The business of the Company is under the general management of the Board of Directors as provided by the laws of Delaware, the state of incorporation. The Board of Directors generally meets at least quarterly and held four meetings during the 2002 fiscal year. Between Board meetings, Board responsibilities are delegated to the Executive Committee, comprised of three Board members. The Executive Committee did not meet during the 2002 fiscal year.

The Nominating Committee of the Board of Directors consists of the four independent members of the Board of Directors, Dr. E. Eugene Carter, Samuel C. Hutchinson, Jr., Peter B. Madoff and Mark S. Wrighton. The Nominating Committee held two meetings during the 2002 fiscal year and was responsible for nominating two directors. Stockholders also may make nominations for directors. Stockholders wishing to propose nominees for consideration at the 2002 Annual Meeting must comply with a Bylaw provision dealing with nominations. For a discussion of the nominating procedures, see Stockholder Proposals.

The Company has a Compensation Committee comprised of four independent directors. The Compensation Committee held two meetings during the 2002 fiscal year. The Compensation Committee was responsible for establishing the compensation of Robert L. Bagby for the 2002 fiscal year. The Compensation Committee of A.G. Edwards & Sons, Inc., a wholly-owned subsidiary of the Company (the Brokerage Company), determined the compensation of all employees for the 2002 fiscal year, including officers of the Company, with the exception of Robert L. Bagby. (See Joint Report of the Compensation Committees of the Brokerage Company and the Company.)

The Audit Committee of the Board of Directors consists of four independent directors and held three meetings during the 2002 fiscal year. The Audit Committee performed the following principal functions: (i) reviewed quarterly and year-end financial statements with the outside auditors, internal auditors and management; (ii) reviewed the scope of the external and internal audits and reports with the outside and internal auditors and management; (iii) reviewed the outside auditor s management letter and managment s response thereto; (iv) recommended the selection of outside auditors; (v) reviewed the quality and depth of the Company s internal audit, accounting and financial staffs; and (vi) reviewed and approved the rendering of audit and nonaudit services by the outside auditors. (See Report of the Audit Committee.)

During the 2002 fiscal year, all directors attended at least 90 percent of all meetings of the Board of Directors and the committees of the Board on which each served.

Nominees for Directors

The Company s Certificate of Incorporation and Bylaws provide for a classified Board of Directors, with the Board divided into three classes whose terms expire at different times. The Company presently

has seven directors. Two members are to be elected to the Board of Directors at the 2002 Annual Meeting, each to serve for a term of three years. Upon their election, the Company will have seven directors. The Nominating Committee and the Board of Directors have made two nominations for directors. The nominees, Samuel C. Hutchinson, Jr. and Ronald J. Kessler, are now directors of the Company.

The persons named in the enclosed form of proxy intend to vote the proxies in favor of the election of the nominees listed below to serve as directors of the Company for terms expiring in 2005 or until the election and qualification of their successors, unless the stockholder indicates on the form of proxy that the vote should be withheld or contrary directions are indicated. If one or more nominees shall become unavailable for any reason, the Board of Directors, in its discretion, may, unless the Board of Directors provides by resolution for a lesser number of directors, designate one or more substitute nominees, in which case such proxies will be voted for such substituted nominees. The Board of Directors has no reason to doubt the availability of any of the nominees, and each has indicated a willingness to serve if elected. All of the current directors were elected by the stockholders except for Ronald J. Kessler who was elected by the Board of Directors to fill a vacancy created by the resignation of a director.

Name and Age	**Principal Occupation for the Past Five Years and Other Directorships**	**Year First Elected Director of the Company/Current Board Committee Membership**
NOMINEES FOR DIRECTORS TO BE ELECTED IN 2002 FOR TERMS EXPIRING IN 2005		
Samuel C. Hutchinson, Jr., 59	President, Interface Construction Corp. since 1978.	1993 Member of the Audit

Name and Age	Principal Occupation for the Past Five Years and Other Directorships	Year First Elected Director of the Company/Current Board Committee Membership
		Committee, Compensation Committee and Nominating Committee
Ronald J. Kessler, 54	Vice Chairman of the Board of the Company and of the Brokerage Company since March 2001; Executive Vice President of the Brokerage Company; Director of the Operations Division of the Brokerage Company since 1998; Assistant Director of the Operations Division of the Brokerage Company from 1988 to 1998. Employee of the Brokerage Company for 34 years. Director of the Brokerage Company since 1989.	2001(1) Member of the Executive Committee

(1) Previously served as a director from 1999 to 2000.

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Name and Age	Principal Occupation for the Past Five Years and Other Directorships	Year First Elected Director of the Company/Current Board Committee Membership
	DIRECTORS WITH TERMS EXPIRING IN 2004	
Robert L. Bagby, 58	Chairman of the Board and Chief Executive Officer of the Company and the Brokerage Company since March 2001; Vice Chairman of the Board of the Company and of the Brokerage Company from 1996 to March 2001; Director of the Branch Division of the Brokerage Company from 1995 to March 2001. Employee of the Brokerage Company for 27 years. Director of the Brokerage Company since 1979.	1995 Member of the Executive Committee
Dr. E. Eugene Carter, 60	Trustee, Charlotte R. Boschan Trust. Research Fellow, Lincoln Institute of Land Policy. Director of the Brokerage Company from	1983 Member of the Audit Committee, Compensation Committee and Nominating Committee

	1976 to 1983.	
Peter B. Madoff, 56	Senior Managing Director of Bernard L. Madoff Investment Securities LLC, formerly Bernard L. Madoff Investment Securities, Inc.	2001 Member of the Audit Committee, Compensation Committee and Nominating Committee

Name and Age	Principal Occupation for the Past Five Years and Other Directorships	Year First Elected Director of the Company/Current Board Committee Membership
DIRECTORS WITH TERMS EXPIRING IN 2003		
Benjamin F. Edwards IV, 46	Vice Chairman of the Board of the Company and of the Brokerage Company since 1999; President of the Company and of the Brokerage Company since March 2001; Director of the Sales and Marketing Division of the Brokerage Company since 1997. Employee of the Brokerage Company for 24 years. Director of the Brokerage Company since 1994.	1997 Member of the Executive Committee
Mark S. Wrighton, 52	Chancellor of Washington University since 1995; Provost, Massachusetts Institute of Technology from 1990 to 1995. Director of Cabot Corporation, Helix Technology Corporation, Ionics, Incorporated and OIS Optical Imaging Systems, Inc.	2000 Member of the Audit Committee, Compensation Committee and Nomination Committee

DIRECTOR COMPENSATION

Directors, except those who are officers or employees of the Company or its subsidiaries, receive an annual retainer of $20,000 and a fee of $1,000 for each Company Board of Directors meeting, committee meeting or Brokerage Company Board of Directors meeting attended. The annual retainer is paid in the form of common stock of the Company with the value of the stock based on the market price on July 1 of the fiscal year in which the compensation is earned. Non-employee directors do not participate in any of the Company s employee benefit plans.

OWNERSHIP OF THE COMPANY S COMMON STOCK

Ownership by Directors and Executive Officers

The following table sets forth the beneficial ownership of the Company s Common Stock as of May 1, 2002 by (i) each director and nominee, (ii) each executive officer named in the Summary Compensation Table, and (iii) all directors and executive officers as a group:

Name	Number of Shares	Percentage of Class
Robert L. Bagby	86,054(1)(2)	(3)
Dr. E. Eugene Carter	333,152	(3)
Benjamin F. Edwards IV	65,287(1)	(3)
Alfred E. Goldman	18,176(1)	(3)
Samuel C. Hutchinson, Jr.	2,693	(3)
Douglas L. Kelly	36,268(1)	(3)
Ronald J. Kessler	123,547(1)(4)	(3)
Peter B. Madoff	1,458	(3)
Mark S. Wrighton	1,948	(3)
All Directors and Executive Officers as a Group (17 persons)	989,573(1)	1.3%

(1) Includes restricted stock issued pursuant to the Company s 1988 Incentive Stock Plan (the "1988 Plan) as to which each recipient has sole voting power and no current investment power, as follows: Mr. Bagby, 7,602 shares; Mr. Edwards IV, -0- shares; Mr. Goldman, 2,609 shares; Mr. Kelly, 7,520 shares, Mr. Kessler, 7,568 shares; and other executive officers, 67,718 shares.

(2) Mr. Bagby has shared voting and investment power over 67,660 shares, including 174 shares owned by his wife and 67,312 shares held jointly with his wife.

(3) Percentages of less than 1% have been omitted.

(4) Mr. Kessler has shared voting and investment power over 40,192 shares held by him as co-trustee of a trust.

Ownership by Certain Other Persons

To the knowledge of the Company, no person is the beneficial owner of more than five percent of the Common Stock of the Company.

EXECUTIVE COMPENSATION

The table on the next page sets forth for each of the Company s last three fiscal years the compensation of the Company s Chief Executive Officer and its other four most highly compensated executive officers serving at the end of the fiscal year (the Named Executive Officers).

Summary Compensation Table

Long Term Compensation Awards

Name and Principal Position at End of Fiscal Year	Fiscal Year	Annual Compensation		Long Term Compensation Awards		
		Salary	Bonus	Restricted Stock Awards (1)(2)(3)(4)	Number of Securities Underlying Options(2)	All Other Compensation(5)
Robert L. Bagby	2002	$456,578	$ 647,407	$ 93,669	0	$100,000
Chairman of the Board	2001	261,630	853,877	107,514	0	100,000
and Chief Executive Officer of the Company; Chairman of the Board and Chief Executive Officer of the Brokerage Company	2000	248,630	1,264,601	80,581	0	100,000
Benjamin F. Edwards IV	2002	$241,770	$ 439,725	$ 0	5,733	$ 88,477
Vice Chairman of the	2001	226,840	775,139	0	6,915	100,000
Board and President of the Company; Vice Chairman of the Board, President, Director of the Sales and Marketing Division of the Brokerage Company	2000	216,840	1,131,868	0	6,357	100,000
Alfred E. Goldman	2002	$209,578	$ 388,374	$ 90,932	0	$ 79,976
Corporate Vice President	2001	203,130	711,277	107,514	0	100,000
and Director of Market Analysis of the Brokerage Company	2000	196,130	980,027	80,581	0	100,000
Douglas L. Kelly	2002	$206,770	$ 385,621	$ 90,319	0	$ 74,696
Vice President, Treasurer,	2001	192,840	656,853	107,514	0	100,000
Chief Financial Officer and Secretary of the Company; Executive Vice President, Treasurer, Chief Financial Officer, Director of Law and Compliance and Director of Administration of the Brokerage Company	2000	184,840	912,154	80,581	0	100,000
Ronald J. Kessler	2002	$186,578	$ 394,098	$ 92,280	0	$ 75,875
Vice Chairman of the	2001	170,630	690,289	107,514	0	100,000
Board of the Company; Vice Chairman of the Board, Executive Vice President and Director of the Operations Division of the Brokerage Company	2000	162,630	956,745	80,851	0	100,000

(1) Amounts shown include both Restricted Share and Phantom Stock Credit awards, which are valued based on the market value, as defined under the plan, of Common Stock on the Consolidated Transaction Reporting System on the determination date of such awards. The awards are made as of the end of the fiscal year for which they are awarded for service during that fiscal year. Restricted Shares can be awarded to participants in the 1988 Plan who are under age 60. The restrictions on Restricted Shares lapse three years after their award date. Participants who are 60 years of age or older (Over 60 Participants) do not receive Restricted Shares. Instead, they are awarded Phantom Stock Credits which serve as the basis for an award of Restricted Shares two years after their award date (Deferred Award Date), with each Phantom Stock Credit representing the right to receive one Restricted Share. The number of Phantom Stock Credits awarded to an Over 60 Participant is adjusted to reflect dividends on the Common Stock. Restricted Shares awarded as of any Deferred Award Date are subject to all of the terms and restrictions applicable to other Restricted Shares, except the restrictions last for only nine months.

(2) The awards of Restricted Shares, Phantom Stock Credits and Options contain provisions for the accelerated lapsing of the restrictions for Restricted Shares (including those issued based on Phantom Stock Credits) and the accelerated exercisability of Options in the event of a merger, consolidation, acquisition, sale or transfer of assets, tender, or exchange offer or other reorganization in which the Company does not survive as an independent, publicly-owned company.

(3) The aggregate number and value of Restricted Shares and Phantom Stock Credits held by the persons named in the table as of February 28, 2002, are as follows: Mr. Bagby, 7,602 shares $310,542; Mr. Goldman, 2,609 shares and 5,023 credits $311,767; Mr. Kelly, 7,520 shares $307,192; and Mr. Kessler, 7,568 shares $309,153.

(4) Dividends are paid on unvested Restricted Shares and adjustments are made to Phantom Stock Credits for dividends as discussed in Note 1 to this table above; such dividends and adjustments are equal in amount to the dividends paid on shares of Common Stock.

(5) Amounts shown consist of the following: (i) amounts set aside under the Company s Retirement and Profit Sharing Plan for the 2000, 2001 and 2002 fiscal years, respectively Mr. Bagby, $19,207, $16,311 and $13,809; Mr. Edwards IV, $19,207, $16,311 and $13,809; Mr. Goldman, $19,207 and $16,311 and $13,809; Mr. Kelly, $19,207, $16,311 and $13,809; and Mr. Kessler, $19,207, $16,311 and $13,809; and (ii) amounts credited to accounts under the Company s Excess Profit Sharing Deferred Compensation Plan for the 2000, 2001 and 2002 fiscal years, respectively Mr. Bagby, $80,793, $83,689 and $86,911; Mr. Edwards IV, $80,793, $83,689 and $75,388; Mr. Goldman, $80,793, $83,689 and $66,887; Mr. Kelly, $80,793, $83,689 and $61,607; and Mr. Kessler, $80,793, $83,689 and $62,786.

The following table sets forth certain information regarding the exercise of options to purchase Company Common Stock during the Company s 2002 fiscal year by the Named Executive Officers and the unexercised options to purchase Company Common Stock held by such persons on February 28, 2002.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

			Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End(1)	
Name	**Number of Shares Acquired on Exercise**	**Value Realized**	**Exercisable (shares)**	**Unexercisable (shares)**	**Exercisable**	**Unexercisable**
Robert L. Bagby		$0			$0	$0
Benjamin F. Edwards IV		0		19,005	0	42,227
Alfred E. Goldman		0			0	0
Douglas L. Kelly		0			0	0
Ronald J. Kessler		0			0	0

(1) Options become exercisable three years after they are awarded, and must be exercised no later than eight years after they are awarded.

Compensation Committee Interlocks and Insider Participation

All of the members of the Compensation Committee of the Brokerage Company (as named on page 13) are officers of the Company or one of its subsidiaries. Messrs. Bagby, Edwards IV and Kessler are all directors of the Company and are officers or directors of the Company or one of its subsidiaries.

JOINT REPORT OF THE COMPENSATION COMMITTEES OF THE BROKERAGE COMPANY AND THE COMPANY

The Compensation Committee of the Brokerage Company (the Brokerage Committee) determined the compensation for the fiscal year ended February 28, 2002 (the "2002 fiscal year) of all officers of the Company with the exception of Robert L. Bagby. The Compensation Committee of the Company (the Company Committee) determined the compensation of Robert L. Bagby.

It is the policy of the Company to have a substantial portion of each officer s annual compensation directly related to the performance of the Company. The policy is applied consistently to all the Named Executive Officers, including Mr. Bagby.

For the 2002 fiscal year, the annual compensation of the Named Executive Officers had seven components, each of which is discussed below. The Company seeks to structure compensation for its executive officers so that all of the compensation is deductible by the Company for federal income tax purposes, including meeting the requirements of Section 162(m) of the Internal Revenue Code for deductibility of compensation in excess of a certain amount. However, if the Company is not able to structure compensation for its executive officers so that all such compensation is deductible, the Board of Directors of the Company, the Company Committee or the Brokerage Committee, as appropriate, will

make a determination in its business judgment as to the appropriate compensation for such executives considering the benefits and the costs to the Company, including in its considerations the additional costs arising from the inability to deduct part or all of the compensation.

Base Salary. A base salary was set prior to the beginning of the 2002 fiscal year by the Brokerage Committee for each Named Executive Officer other than Mr. Bagby and by the Company Committee for Mr. Bagby. Base salaries are intended to be relatively moderate, but competitive, for the Company s industry. The increase in the Base Salary for Mr. Bagby from $261,000 to $456,000 for the 2002 fiscal year reflected his promotion to Chairman and Chief Executive Officer of the Company and its principal subsidiary, the Brokerage Company.

Corporate Executive Bonus Plan. The Corporate Executive Bonus Plan is designed to provide certain officers and key employees of the Company and its subsidiaries with direct participation in the profitability of the Company. Unless the Company has a specified minimum of pre-tax earnings ($2,500,000 in the 2002 fiscal year), no payment is made under the Plan. Awards under the Plan are based on prescribed formulae that take into account the employee s position with the Company, individual performance, and the Company s earnings. The formula for bonus accrual (the bonus pool) is determined prior to the beginning of each fiscal year by the Board of Directors and is based on (i) the Company s consolidated earnings before provision for income taxes, certain employee bonuses, and discretionary Profit Sharing Plan contributions, (ii) certain branch office profits, and (iii) the net revenues of certain departments. The Board of Directors has discretion to increase or decrease the amount subject to the plan. In fiscal year 2002, the Board of Directors adjusted the accruals as a result of certain restructuring and other charges.

Eligible officers are assigned shares in the bonus pool prior to the beginning of the fiscal year. Such shares are assigned based on the officer s position and responsibility with the Company and individual performance. Eligible officers, other than Mr. Bagby, were assigned shares for the 2002 fiscal year by the Brokerage Committee. The Company Committee assigned 100 shares to Mr. Bagby for the 2002 fiscal year, the same number of shares he had for the prior fiscal year. No officer has ever received more than 100 shares. During the 2002 fiscal year, three officers, including two of the Named Executive Officers and Mr. Bagby, had 100 shares. At the beginning of the 2002 fiscal year, a total of 13,232 shares were assigned to 597 eligible officers.

Under the Corporate Executive Bonus Plan, after the end of the fiscal year, the accrued bonus pool is mathematically divided into two separate portions, consisting of two-thirds and one-third, respectively. The two-thirds portion is distributed in accordance with the number of shares previously assigned to each participant. The one-third portion is distributed based on a formula which weights each participant s shares by the participant s base salary. The sum of the two portions is each participant s total Corporate Executive Bonus for the fiscal year, and is paid after the end of the fiscal year.

The Corporate Executive Bonus Plan limits the amount that can be paid to individual participants so that all compensation paid under the Corporate Executive Bonus Plan is tax deductible by the Company. To the extent amounts may not be paid under the Corporate Executive Bonus Plan to individual participants because of the tax limitation, the amounts may be paid under the Performance Plan for Executives (the Performance Plan) if the conditions of the Performance Plan are met.

Performance Plan for Executives. The Performance Plan was adopted solely in response to the enactment of the Section 162(m) of the Internal Revenue Code in 1993. Section 162(m) requires

conditions to be met for certain compensation of specified executive officers to be deductible. In order to meet the conditions of Section 162(m) with no significant change in the compensation structure of the Company, the Corporate Executive Bonus Plan was amended to limit compensation which would otherwise be payable under the Corporate Executive Bonus Plan and the Performance Plan for Executives was adopted in order to pay the compensation which, but for the limitation, would have been payable under the Corporate Executive Bonus Plan. The Company s intent and the provisions of the Plans are drafted to provide that the combined plans will operate in the same manner as the Corporate Executive Bonus Plan operated prior to the enactment of Section 162(m), subject only to certain limitations on payments.

The participants in the Performance Plan are those employees of the Company who are: (i) covered employees under Section 162(m) of the Internal Revenue Code, (ii) designated individually or by class description to be Covered Employees under the Performance Plan by the Company Committee, and (iii) participants under the Corporate Executive Bonus Plan. The Company Committee has designated all executive officers of the Company to be Covered Employees, and all of the executive officers of the Company are participants in the Corporate Executive Bonus Plan. Section 162(m), however, limits covered employees to only the Chief Executive Officer of the Company and the four highest compensated officers of the Company (other than the Chief Executive Officer), so, in any fiscal year, there can be no more than five participants.

The performance goals for the Performance Plan were approved by the stockholders in 1994 and are the same as for the Corporate Executive Bonus Plan. The actual amount payable to a Covered Employee in a fiscal year under the Performance Plan is the lesser of: (i) the amount of reduction in payments to the Covered Employee as a participant under the Corporate Executive Bonus Plan for that fiscal year as a result of Section 162(m), (ii) the Covered Employee s Initial Bonus Amount for that fiscal year, and (iii) the Maximum Bonus Amount for that fiscal year. A Covered Employee s Initial Bonus Amount each fiscal year is equal to the amount that the Covered Employee would be prohibited from receiving under the Corporate Executive Bonus Plan as a result of Section 162(m) as determined solely from fixed assumptions contained in the Performance Plan and information known as of the beginning of the fiscal year. The Maximum Bonus Amount for each Covered Employee was $3,897,434 for fiscal year 2002. The Maximum Bonus Amount increases each fiscal year by 10% over the prior fiscal year. Before any amount can be paid under the Performance Plan, the Company Committee must certify in writing that the performance goals and the material terms of the Performance Plan were satisfied. The Company Committee certified that the performance goals and material terms were satisfied for the 2002 fiscal year and the amounts paid to Mr. Bagby is included in the Summary Compensation Table.

Discretionary Bonus. The Chief Executive Officer may award a discretionary bonus to any officer other than himself and the Company Committee may award a discretionary bonus to the Chief Executive Officer. The discretionary bonus is intended to reward efforts or results by an individual which are not recognized or compensated by other compensation. No objective standards, criteria or established targets are used to determine the amount of the discretionary bonuses.

1988 Incentive Stock Plan. The 1988 Plan is designed to motivate employees of the Company and its subsidiaries through the incentives inherent in stock ownership by providing the opportunity to obtain or increase a proprietary interest in the Company on a favorable basis. The 1988 Plan provides for the granting of Options or Restricted Shares, or both. For fiscal year 2002, if Options were granted, the participant received an option to purchase 2.5 times the number of shares that would have been granted as Restricted Shares. The Named Executive Officers were awarded, for fiscal year 2002, an amount equal to 25% of each such officer s Corporate Executive Bonus and Performance Plan Bonus (as described above); provided, in no event could the award amount for any participant exceed an amount set by the 1988 Plan, $100,000 in the 2002 fiscal year. Accordingly, the awards of Options and Restricted Shares were related to the profitability of the Company in substantially the same manner as the awards under the Corporate Executive Bonus Plan and the Performance Plan.

The Options provide for the purchase of shares of Common Stock at market value on the determination date and do not become exercisable until three years after the date of award. Because the value of the Options is dependent on the increase of the market value of the Common Stock over at least a three year period, the Options provide a long-term incentive for the executives to stay with the Company and to increase the market value of the Common Stock.

Restricted Shares were also awarded based on the market value of the Common Stock on the determination date (participants 60 years of age and over on the date Restricted Shares are awarded receive Phantom Stock Credits, in lieu of Restricted Shares, which serve as the basis for an award of Restricted Shares two years after the award date). The Restricted Shares are subject to restrictions for three years after their award except those shares converted from Phantom Stock Credits are subject to a nine month restricted period after conversion. Again, by an award of Restricted Shares, the executives are encouraged to remain with the Company and to increase the market value of the Common Stock.

The 1988 Plan also has an Employee Stock Purchase Plan portion to authorize the award of options qualified under Section 423 of the Internal Revenue Code to qualified employees. Under the current plan, the qualified employees include most of the full-time and part-time employees of the Company and its subsidiaries. Participation in the 1988 Employee Stock Purchase Plan is not based upon the performance of the Company; employees elect to use a portion of their compensation to buy Common Stock under the plan. The 1988 Employee Stock Purchase Plan is intended to encourage the employees of the Company to obtain or increase a proprietary interest in the Company on a favorable basis by offering Common Stock at below market value. Shares under the 1988 Employee Stock Purchase Plan are issued at a price based upon a formula which is at least 15% below market value based on dates specified in the plan. The Company proposes to adopt a new employee stock purchase plan (see Proposal 2"), which will replace the Employee Stock Purchase Plan portion of the 1988 Plan.

Retirement and Profit Sharing Plan. The Company maintains a Retirement and Profit Sharing Plan (the Profit Sharing Plan), which is qualified under Section 401 of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). In addition to certain required matching and non-matching contributions, the Company may make a discretionary contribution as determined each year by the Board of Directors of the Company. On February 23, 2001, the Board of Directors of the Company approved an accrual formula for the discretionary contribution to the Profit Sharing Plan for the 2002 fiscal year in an amount not less than 8% and not more than 10% of the Company s earnings on a consolidated basis and before certain bonuses, Company discretionary Profit Sharing Plan contributions and taxes on income. During fiscal 2002, the Board of Directors adjusted the accrual to exclude certain restructuring and other charges. The maximum total Company and employee contribution allowable with respect to any employee under the Profit Sharing Plan in the last fiscal year was $35,000; however, because of the contribution rate and other limitations on recognized compensation in the Profit Sharing Plan, the actual maximum Company contribution with respect to any employee was less than that amount.

Excess Profit Sharing Deferred Compensation Plan. The Company has established the Excess Profit Sharing Deferred Compensation Plan (the Excess Benefit Plan) to provide deferred compensation to certain participants in the Profit Sharing Plan whose benefit in the Profit Sharing Plan is subject to limitations imposed by the Internal Revenue Code. Contributions to the Excess Benefit Plan are based on the same basic formula as the Profit Sharing Plan, but without regard to certain limitations imposed by the Internal Revenue Code on the benefits of highly compensated employees. The maximum aggregate contribution by the Company for any employee under both the Profit Sharing Plan and the Excess Benefit Plan in the last fiscal year was $100,000; accordingly, the maximum benefit with respect to any employee under the Excess Benefit Plan was the difference between $100,000 and the Profit Sharing Plan Company contribution with respect to such employee.

JOINT REPORT OF THE COMPENSATION COMMITTEES OF THE BROKERAGE COMPANY AND THE COMPA

Procedures for Compensation of Mr. Bagby. Prior to the beginning of the 2002 fiscal year, the Company Committee considered the compensation of Mr. Bagby for the 2002 fiscal year. The Company Committee reviewed the seven components of the compensation structure of the Company, the historical performance of the structure, the consistency of the compensation components for Mr. Bagby with the components for other officers, the guidelines used for determining the base salaries of other officers, and the compensation of officers in other companies in the industry. The Committee also considered that effective March 1, 2001, Mr. Bagby became Chairman of the Board and Chief Executive Officer of the Company and its principal operating subsidiary, the Brokerage Company. Based on the review, the Company Committee determined to increase the base salary for Mr. Bagby from $261,000 to $456,000 and that the other components of his compensation should not be changed from the prior year. After the end of the fiscal year, the Committee determined that the goals for the Performance Plan had been satisfied.

Members of the Compensation Committee of the Company (Company Committee)+	Members of the Compensation Committee of the Brokerage Company (Brokerage Committee)
Dr. E. Eugene Carter	Mary V. Atkin
Samuel C. Hutchinson, Jr.	Robert L. Bagby
Peter B. Madoff*	Donnis L. Casey
Mark S. Wrighton	Benjamin F. Edwards IV
	Douglas L. Kelly
	Ronald J. Kessler
	Paul F. Pautler
	Robert A. Pietroburgo

* Peter B. Madoff was elected to the Board of Directors on June 21, 2001 and joins the report only for events after that date.

\+ Charmaine S. Chapman was a member and the Chair of the Compensation Committee until her death in July 2001.

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REPORT OF THE AUDIT COMMITTEE

In accordance with its written charter adopted by the Board of Directors (the Board), the Audit Committee of the Board (the Committee) assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. The Committee members are four non-employee directors who are independent as defined in the New York Stock Exchange listing standards. During fiscal year 2002, the Committee met three times, and the Committee chair, as representative of the Committee, discussed the interim financial information contained in each quarterly earnings announcement with management and the independent auditors.

The Committee reviewed the audited financial statements of the Company as of and for the fiscal year ended February 28, 2002 with management and the independent auditors. Management is responsible for the financial reporting process, including the system of internal control, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. The Company s independent auditors are responsible for auditing those financial statements. The Committee s responsibility is to monitor and review these processes. However, the Committee members are not professionally engaged in the practice of accounting or auditing and are not experts in the fields of accounting or auditing, including with respect to auditor independence. Committee members rely, without i