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**Raymond James Financial, Inc. Electronic EDGAR Proof**

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| <b>Job Number:</b>                      | <b>-NOT DEFINED-</b> |
| <b>Company Name:</b>                    | <b>-NOT DEFINED-</b> |
| <b>Form Type:</b>                       | <b>10-K</b>          |
| <b>Reporting Period / Event Date:</b>   | <b>09-30-2006</b>    |
| <b>Customer Service Representative:</b> | <b>-NOT DEFINED-</b> |
| <b>Revision Number:</b>                 | <b>-NOT DEFINED-</b> |

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| Sub Filer Ccc              | sjm2a\$jwt   |
| Reporting Period           | 09-30-2006   |
| Shell Company              | No   |
| Voluntary Filer            | No   |
| Well Known Seasoned Issuer | Yes  |
| Global Enclosed File Count | 10   |
| Internet Address           | doug.krueger@raymondjames.com<br>nancy.rice@raymondjames.com |

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### Documents

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| 10-K      | k10093006.htm<br>Raymond james Financial, Inc. 2006 10-K |
| EX-10.9.2 | ex1092.htm<br>Exhibit 10.9.2                             |
| EX-10.11  | ex1011.htm<br>Exhibit 10.11                              |
| EX-21     | ex21.htm<br>Exhibit 21                                   |
| EX-23     | ex23.htm<br>Exhibit 23                                   |
| EX-31     | ex31.htm<br>Exhibit 31                                   |
| EX-32     | ex32.htm<br>Exhibit 32                                   |
| EX-99.1   | ex991.htm<br>Exhibit 99(i).1                             |
| EX-99.2   | ex992.htm<br>Exhibit 99(i).2                             |
| 10-K      | submissionpdf.pdf<br>PDF                                 |

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### Module and Segment References

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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 September 30, 2006

OR

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number 1-9109

RAYMOND JAMES FINANCIAL, INC.  
(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of  
incorporation or organization)

880 Carillon Parkway, St. Petersburg, Florida  
(Address of principal executive offices)

Registrant's telephone number, including area code

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

Title of each class  
Common Stock, \$.01 Par Value

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

No. 59-1517485  
(I.R.S. Employer  
Identification No.)

33716  
(Zip Code)

(727) 567-1000

Name of each exchange on which registered  
New York Stock Exchange

None  
(Title of class)

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 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 is not contained herein, and will not be contained, to the best of 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.

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

The aggregate market value of common stock held by non-affiliates of the registrant as of March 31, 2006 was \$2,731,191,559.

The number of shares outstanding of the registrant's common stock as of December 5, 2006 was 117,034,717.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held February 15, 2007 are incorporated by reference into Part III.

**RAYMOND JAMES FINANCIAL, INC.**  
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## **PART I**

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### **ITEM 1. BUSINESS**

Raymond James Financial, Inc. ("RJF") is a holding company headquartered in Florida whose subsidiaries are engaged in various financial services businesses predominantly in the United States of America ("U.S.") and Canada. Its principal subsidiaries include Raymond James & Associates, Inc. ("RJA"), Raymond James Financial Services, Inc. ("RJFS"), Raymond James Ltd. ("RJ Ltd."), Eagle Asset Management, Inc. ("Eagle"), Heritage Asset Management, Inc. ("Heritage") and Raymond James Bank, FSB ("RJBANK"). All of these subsidiaries are wholly owned by RJF. RJF and its subsidiaries are hereinafter collectively referred to as the "Company".

#### **PRINCIPAL SUBSIDIARIES**

RJF's principal subsidiary, RJA, is the largest full service brokerage and investment firm headquartered in the state of Florida and one of the larger retail brokerage firms in North America. RJA is a self-clearing broker-dealer engaged in most aspects of securities distribution, trading, investment banking and asset management. RJA also offers financial planning services for individuals and provides clearing services for RJFS, other affiliated entities and several unaffiliated broker-dealers. RJA is a member of the New York Stock Exchange ("NYSE"), American Stock Exchange, and most regional exchanges in the U.S. It is also a member of the National Association of Securities Dealers ("NASD") and Securities Investors Protection Corporation ("SIPC").

RJFS is an independent contractor broker-dealer subsidiary, and one of the largest independent contractor brokerage firms in the U.S. Financial Advisors affiliated with RJFS may offer their clients all products and services offered by RJA. RJFS also has four institutional sales offices in Europe. RJFS is a member of the NASD and SIPC, but not of any exchange, as it clears all of its business on a fully disclosed basis through RJA.

RJ Ltd. is the Company's Canadian broker-dealer subsidiary which engages in both retail and institutional distribution and investment banking. RJ Ltd. is a member of the Toronto Stock Exchange and the Investment Dealers Association of Canada ("IDA"). Its U.S. broker-dealer subsidiary is a member of the NASD.

Eagle is a registered investment advisor serving as the discretionary manager for individual and institutional equity and fixed income portfolios.

Heritage acts as the manager of the Company's internally sponsored Heritage Family of Mutual Funds.

RJBANK provides traditional banking products and services to the clients of the Company's broker-dealer subsidiaries and to the general public.

#### **BUSINESS SEGMENTS**

The Company's business has seven segments: Private Client Group; Capital Markets; Asset Management; RJBANK; Emerging Markets; Stock Loan/Borrow and certain investments combined in the "Other" segment. Financial information concerning RJF for each of the fiscal years ended September 30, 2006, September 30, 2005 and September 24, 2004 is included in the consolidated financial statements and notes thereto. Such information is hereby incorporated by reference.

#### **PRIVATE CLIENT GROUP**

The Company provides securities transaction and financial planning services to approximately 1.5 million client accounts through the branch office systems of RJA, RJFS, RJ Ltd., and Raymond James Investment Services Limited ("RJIS"), an independent contractor subsidiary in the United Kingdom. The Company's Financial Advisors offer a broad range of investments and services, including both third party and proprietary products, and a range of financial planning services. In most cases, the Company charges commissions for sales of investment products to its Private Client Group clients based on an established commission schedule. Varying discounts may be given, generally based upon the client's level of business, the trade size, service level provided, and other relevant factors. An increasing number of clients are electing asset-based fee alternatives instead of the traditional commission structure; in fiscal year 2006 asset-based fees from such accounts represented 31% of the Private Client Group's commission and fees.

The majority of the Company's U.S. Financial Advisors are also licensed to sell insurance and annuity products through its general insurance agency, Planning Corporation of America ("PCA"), a wholly owned subsidiary of RJA. Through the Financial Advisors of the Company's broker-dealer subsidiaries, PCA provides product and marketing support for a broad range of insurance products, principally fixed and variable annuities, life insurance, disability insurance and long-term care coverage.

The Company's Financial Advisors offer a number of professionally managed load mutual funds, as well as a selection of no-load funds. RJA maintains dealer-sales agreements with most major distributors of mutual fund shares sold through broker-dealers, including funds managed by Heritage. Commissions on such sales generally range from 0% to 5.75% of the dollar value of the transaction. The majority of mutual fund purchases include a front-end sales charge or occur at net asset value ("NAV") in fee-based accounts. In addition, there is typically an annual charge in the form of a fund expense.

No single client accounts for a material percentage of this segment's total business.

**Private Client Group Securities Commission and Fees**  
**For the Fiscal Years Ended:**

|  | <b>Sept. 30,</b>     | <b>% of</b>  | <b>Sept. 30,</b>   | <b>% of</b>  | <b>Sept. 24,</b>   | <b>% of</b>  |
|--|----------------------|--------------|--------------------|--------------|--------------------|--------------|
|  | <b>2006</b>          | <b>Total</b> | <b>2005</b>        | <b>Total</b> | <b>2004</b>        | <b>Total</b> |
|  | <b>(\$ in 000's)</b> |              |                    |              |                    |              |
| Listed equity  | \$ 188,031           | 15%          | \$ 178,148         | 16%          | \$ 154,374         | 15%          |
| OTC equities   | 55,706               | 5%           | 55,946             | 5%           | 68,223             | 7%           |
| Fixed income *   | 37,911               | 3%           | 41,596             | 3%           | 49,075             | 5%           |
| Mutual funds   | 294,586              | 23%          | 257,026            | 23%          | 228,001            | 22%          |
| Fee based accounts                                     | 390,691              | 31%          | 307,684            | 27%          | 251,967            | 25%          |
| Insurance and annuity products                         | 228,888              | 18%          | 222,657            | 20%          | 212,747            | 21%          |
| New issue sales credits                                | 66,938               | 5%           | 69,234             | 6%           | 51,614             | 5%           |
| <b>Total Private Client Group commissions and fees</b> | <b>\$1,262,751</b>   | <b>100%</b>  | <b>\$1,132,291</b> | <b>100%</b>  | <b>\$1,016,001</b> | <b>100%</b>  |

\* Fixed income products include municipal, corporate, government agency and mortgage-backed bonds, preferred stocks, certificates of deposit, and unit investment trusts.

**Raymond James & Associates**

RJA employs 1,028 Financial Advisors in 170 retail branch offices concentrated in the Southern, Midwest and Mid-Atlantic regions of the United States. RJA's Financial Advisors work in a traditional branch setting supported by local management and administrative staffs. The number of Financial Advisors per office ranges from one to 32. RJA Financial Advisors are employees and their compensation includes not only commission payments but also participation in the firm's benefit plans, including Profit Sharing and ESOP programs. All investment program products are available to RJA Financial Advisors. Between 75 and 100 new Financial Advisors are trained each year at the Robert A. James National Training Center in St. Petersburg, Florida.

**Raymond James Financial Services**

RJFS supports 3,255 independent contractor Financial Advisors in providing products and services to their Private Client Group clients in 1,426 offices and 539 satellite offices throughout all 50 states. The number of Financial Advisors in RJFS offices ranges from one to 13. Independent contractors are responsible for all of their direct costs and, accordingly, are paid a larger percentage of commissions and fees. They are permitted to conduct other businesses unrelated to their RJFS activities such as offering fixed insurance products, independent registered investment advisory services, and accounting and tax services, among others.

Through its Financial Institutions Division ("FID"), RJFS offers securities to customers of financial institutions such as banks, thrifts and credit unions. FID consists of 503 Financial Advisors in 210 locations. RJFS also provides custodial, trading and other support services to unaffiliated independent investment advisors through its Investment Advisor Division ("IAD"). IAD's 62 registered investment advisory firms are able to conduct daily business online with RJFS. Services provided include trading, access to their clients' account information, and the services of the Asset Management segment.

**Raymond James Ltd.**

RJ Ltd. is a self-clearing broker-dealer with its own operations and information processing personnel. RJ Ltd. has 60 private client branches with 195 employee Financial Advisors and 117 independent Financial Advisors, all located in Canada.

**Raymond James Investment Services Limited**

The Company is a 75% shareholder of RJIS. This entity operates an independent contractor network in the United Kingdom, and currently has 36 branch locations and 71 Financial Advisors.

## **RJA - Operations**

RJA's operations personnel are responsible for the execution of orders, processing of securities transactions, custody of client securities, receipt, identification and delivery of funds and securities, compliance with certain regulatory and legal requirements and general office administration for most of the Company's securities brokerage operations. At September 30, 2006, RJA employed 721 persons in its operations areas who provide services primarily to the Private Client Group, but also support the Company's other segments.

The Company's businesses are supported by, and are dependent upon, an extensive system of electronic data processing. These computer systems are largely developed and maintained by the 726 employees in the Company's information technology department, most of whom are located in St. Petersburg.

The Company's operations were not adversely affected by the series of hurricanes that Florida experienced during 2005. However, the Company continues to enhance certain aspects of its business continuity plan to deal with the possible impact of future hurricanes or other events by expanding its operational and processing capabilities in Michigan.

The Company has developed a business continuity plan that is designed to permit continued operation of critical business functions in the event of disruptions to the St. Petersburg facility; all mission critical business departments have developed operational plans for such disruptions, and the Company has a staff which devotes their full time to monitoring and facilitating those plans. In that connection, the Company maintains computer capacity to support mission critical functions at its Michigan location, and conducts some of its daily operational activities from that site. Systems have been designed so that the Company can transfer all mission critical processing activities to Michigan, and personnel have been identified who are assigned responsibility for this role, including some personnel who will be required to temporarily relocate to Michigan to carry out these activities if necessary.

Clients' transactions in securities are effected on either a cash or margin basis. In margin transactions, the client pays a portion of the purchase price, and RJA makes a loan to the client for the balance, collateralized by the securities purchased or by other securities owned by the client. Interest is charged to clients on the amount borrowed to finance margin transactions. The financing of margin purchases is an important source of revenue to RJA, since the interest rate paid by the client on funds loaned by RJA exceeds RJA's cost of short-term funds. The interest rate charged to a client on a margin loan is based on current interest rates and on the size of the loan balance in the client's account.

Typically, broker-dealers utilize bank borrowings and equity capital as the primary sources of funds to finance clients' margin account borrowings. RJA's primary source of funds to finance clients' margin account balances has been cash balances in brokerage clients' accounts (Client Interest Program), which are funds awaiting investment. In addition, pursuant to written agreements with clients, broker-dealers are permitted by the Securities and Exchange Commission ("SEC") and NYSE rules to lend client securities in margin accounts to other financial institutions. SEC regulations, however, restrict the use of clients' funds derived from pledging and lending clients' securities, as well as funds awaiting investment, to the financing of margin account balances; to the extent not so used, such funds are required to be deposited in a special segregated account for the benefit of clients. The regulations also require broker-dealers, within designated periods of time, to obtain possession or control of, and to segregate, clients' fully paid and excess margin securities.

## **CAPITAL MARKETS**

Capital Markets activities primarily consist of equity and fixed income products and services. No single client accounts for a material percentage of this segment's total business.

### Institutional Sales

Institutional sales commissions account for a significant portion of this segment's revenue, which is fueled by a combination of general market activity and the Capital Markets group's ability to identify attractive investment opportunities and promote those opportunities. The Company's institutional clients are serviced by the RJA and RJ Ltd. Institutional Equity Departments, the RJA Fixed Income Department, the European offices of RJFS, and Raymond James Financial International Ltd, an institutional UK broker-dealer located in London. In providing securities brokerage services to its institutional clients, the Company charges its commissions on equity transactions based on trade size and the amount of business conducted annually with each institution. Fixed income commissions are based on trade size and the characteristics of the specific security involved.

#### Capital Markets Commissions For the Fiscal Years Ended:

|                          | Sept. 30,<br>2006 | <i>% of<br/>Total</i> | Sept. 30,<br>2005 | <i>% of<br/>Total</i> | Sept. 24,<br>2004 | <i>% of<br/>Total</i> |
|--------------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|
| (\$ in 000's)            |                   |                       |                   |                       |                   |                       |
| Equity                   | \$ 217,840        | 84%                   | \$ 193,001        | 74%                   | \$ 174,464        | 69%                   |
| Fixed Income             | 41,830            | 16%                   | 66,431            | 26%                   | 77,102            | 31%                   |
| <b>Total commissions</b> | <b>\$ 259,670</b> | <b>100%</b>           | <b>\$ 259,432</b> | <b>100%</b>           | <b>\$ 251,566</b> | <b>100%</b>           |

The 109 domestic and overseas professionals in RJA's Institutional Equity Sales and Sales Trading Departments maintain relationships with over 1,310 institutional clients, principally in North America and Europe. In addition to the Company's headquarters in St. Petersburg, FL, RJA has institutional equity sales offices in New York City, Boston, Chicago, Los Angeles, London and Geneva. RJ Ltd. has 29 institutional equity sales and trading professionals servicing predominantly Canadian institutional investors from offices in Montreal, Toronto and Vancouver. RJFS has institutional equity sales offices in Brussels, Dusseldorf, Luxembourg and Paris. European offices also provide services to high net worth clients.

RJA distributes to its institutional clients both taxable and tax-exempt fixed income products, primarily municipal, corporate, government agency and mortgage-backed bonds. RJA carries inventory positions of taxable and tax-exempt securities in both the primary and secondary markets to facilitate its institutional sales activities. In addition to St. Petersburg, the Fixed Income Department maintains institutional sales and trading offices in New York City, Chicago and 17 other cities throughout the U.S. To assist institutional clients, the Fixed Income Research Group provides portfolio strategy analysis and municipal bond research.

### Equity Research Department

The 47 domestic senior analysts in RJA's research department support the Company's institutional and retail sales efforts and publish research on approximately 670 companies. This research primarily focuses on U.S. companies in specific industries including Technology, Telecommunications, Consumer, Financial Services, Business Services, Healthcare, Real Estate, Energy and Industrial Growth. Proprietary industry studies and company-specific research reports are made available to both institutional and individual clients. RJ Ltd. has an additional 19 analysts who publish research on approximately 207 companies primarily focused in the Energy, Energy Services, Mining, Forest Products, Biotechnology, Technology, Consumer and Industrial Products, REIT and Income Trust sectors.

### Equity Trading

Trading equity securities in the over-the-counter ("OTC") market involves the purchase of securities from, and the sale of securities to, clients of the Company or other dealers who may be purchasing or selling securities for their own account or acting as agent for their clients. Profits and losses are derived from the spreads between bid and asked prices, as well as market trends for the individual securities during the holding period. RJA makes markets in approximately 330 common stocks in the OTC market. Similar to the equity research department, this operation serves to support both the Company's institutional and Private Client Group sales efforts.

### **Equity Investment Banking**

The 60 professionals of RJA's Investment Banking Group, located in St. Petersburg with additional offices in Atlanta, New York City, Nashville, Chicago, Princeton, Palo Alto, Dallas, and Houston, are involved in a variety of activities including public and private equity financing for corporate clients, and merger and acquisition advisory services. RJ Ltd.'s Investment Banking Group consists of 21 professionals located in Calgary, Toronto and Vancouver providing equity financing and financial advisory services to corporate clients. The Company's investment banking activities focus on the same industries as those followed by the Equity Research department.

### **Syndicate Department**

The Syndicate Department coordinates the marketing, distribution, pricing and stabilization of RJA's lead and co-managed equity underwritings. In addition to RJA's managed and co-managed offerings, this department coordinates the firm's syndicate and selling group activities in transactions managed by other investment banking firms.

### **Fixed Income Trading**

RJA trades both taxable and tax-exempt fixed income products. The 28 taxable and 22 tax-exempt RJA fixed income traders purchase and sell corporate (including high yield), municipal, government, government agency, and mortgage-backed bonds, asset backed securities, preferred stock and certificates of deposit from/to clients of the Company or other dealers who may be purchasing or selling securities for their own account or acting as an agent for their clients. RJA enters into future commitments such as forward contracts and "to be announced" securities (e.g. securities having a stated coupon and original term to maturity, although the issuer and/or the specific pool of mortgage loans is not known at the time of the transaction). In addition, a subsidiary of RJF participates in the interest rate swaps market as a principal, both for economically hedging RJA fixed income inventory and in transactions with customers.

### **Fixed Income Investment Banking**

Fixed income investment banking includes debt underwriting and public finance activities. The 56 professionals in the RJA Public Finance division operate out of 8 offices (located in St. Petersburg, Birmingham, New York City, Chicago, Atlanta, Nashville, Helena (Montana) and San Antonio). The Company acts as a financial advisor or underwriter to various municipal agencies or political subdivisions, housing developers and non-profit health care institutions.

RJA acts as an underwriter or selling group member for corporate bonds, mortgage-backed securities, agency bonds, preferred stock and unit investment trusts. When underwriting new issue securities, RJA agrees to purchase the issue through a negotiated sale or submits a competitive bid.

### **Partnership Syndication Activities**

Raymond James Tax Credit Funds, Inc. ("RJTCF") is the general partner or managing member in a number of limited partnerships and limited liability companies which invest in multi-family real estate entities that qualify for tax credits under Section 42 of the Internal Revenue Code. RJTCF has been an active participant in the tax credit program since its inception in 1986, and currently focuses on tax credit funds for institutional investors that invest in a portfolio of tax credit eligible multi-family apartments. The investors' expected return on investment from these funds are primarily derived from tax credits and tax losses that investors can use to reduce their federal tax liability. During fiscal 2006, RJTCF invested over \$276.8 million for large institutional investors in 78 real estate transactions for properties located throughout the U.S. From inception, RJTCF has raised over \$1.3 billion in equity and has sponsored 43 tax credit funds, with investments in 1,068 tax credit apartment properties in 42 states.

### **ASSET MANAGEMENT**

The Company's asset management segment includes proprietary asset management operations, internally sponsored mutual funds, several small proprietary hedge funds, non-affiliated private account portfolio management alternatives, and other fee based programs. No single client accounts for a material percentage of this segment's total business.

#### **Eagle Asset Management, Inc.**

Eagle is a registered investment advisor with approximately \$12.5 billion under management at September 30, 2006, including approximately \$1.8 billion for the Heritage Family of Mutual Funds. Eagle offers a variety of equity and fixed income objectives managed by six portfolio management teams. Eagle's clients include individuals, pension and profit sharing plans, foundations, endowments, variable annuities and mutual fund portfolios. These accounts are managed on a discretionary basis in accordance with the investment objective(s) specified by the client. Eagle manages approximately \$6.9 billion for institutional clients, including funds managed as a subadvisor to variable annuity accounts and mutual funds (including Heritage), and approximately \$5.6 billion for private client accounts.

Eagle's investment management fee for discretionary accounts generally ranges from .20% to 1.0% of asset balances per year depending upon the size and investment objective(s) of the account.

#### **Heritage Asset Management, Inc.**

Heritage serves as investment advisor to the Heritage Family of Mutual Funds and certain short-term fixed income accounts. Heritage also serves as transfer agent for all of the funds and as fund accountant for all Heritage funds except the International Equity Fund. Heritage internally manages the largest of its portfolios, the Heritage Cash Trust-Money Market Fund, which has \$5.1 billion in assets. Portfolio management services for the Diversified Growth Fund, Core Equity Fund and the Mid-Cap Stock Fund are subadvised by Eagle. Portfolio management for the Small Cap Stock Fund is subadvised by both Eagle and the Company's Awad Asset Management subsidiary ("Awad"). Unaffiliated advisors are utilized for the Municipal Money Market Fund, Capital Appreciation Trust, High Yield Bond Fund, Growth and Income Fund, and the International Equity Fund.

Heritage also serves as an advisor to RJBank to make recommendations and monitor the Bank's liquid assets, investments in mortgages and mortgage related securities.

Total assets under management at September 30, 2006 were \$9.3 billion, of which approximately \$6.3 billion were money market funds.

#### **Heritage Fund Distributors, Inc.**

Heritage Fund Distributors is a registered broker-dealer engaged in the distribution of the Heritage Family of Mutual Funds.

#### **Awad Asset Management, Inc.**

Awad is a registered investment advisor that primarily manages small cap equity portfolios. At September 30, 2006 Awad had approximately \$1 billion under management, including approximately \$193 million of the Heritage Small Cap Stock Fund. Awad's clients include individuals, pension and profit sharing plans, variable annuities, foundations, endowments, and mutual fund portfolios. Accounts are managed on a discretionary basis in accordance with the investment objective(s) specified by the client. Management fees generally range from .27% to 1.0% of asset balances annually depending upon the size and investment objective(s) of the account.

#### **Asset Management Services**

RJA's Asset Management Services ("AMS") Department manages several investment advisory programs. The primary advisory services offered are the Raymond James Consulting Services program, which offers a variety of both affiliated and non-affiliated advisors, and the Eagle High Net Worth program. Both programs maintain an approved list of investment managers, provide asset allocation model portfolios, establish custodial facilities, monitor performance of client accounts, provide clients with accounting and other administrative services, and assist investment managers with certain trading management activities. AMS earns fees generally ranging from 0.40% to 0.85% of asset balances per annum, a portion of which is paid to the investment managers who direct the investment of the clients' accounts. In addition, AMS also offers the Freedom program, where an investment committee within AMS manages portfolios of mutual funds on a discretionary basis. At September 30, 2006, these three programs had approximately \$13.0 billion in assets under management, including approximately \$2.0 billion managed by Heritage, Eagle and Awad.

Additional advisory programs offered through AMS are Passport, Ambassador, Opportunity, and the Managed Investment Program. For these accounts, advisory services are provided by the Financial Advisors with AMS providing quarterly performance reporting and other accounting and administrative services. Fees are based on the individual account size and are also dependent on the type of securities in the accounts. As of September 30, 2006, these programs had approximately \$18.4 billion in assets.

In addition to the foregoing programs, AMS also administers fee-based programs for clients who have contracted for portfolio management services from nonaffiliated investment advisors that are not part of the Raymond James Consulting Services program.

RJFS offers an advisory fee based program similar to Passport called IMPAC. As of September 30, 2006, IMPAC had \$7.9 billion in assets serviced by RJFS Financial Advisors.

**Raymond James Trust Company  
Raymond James Trust Company West**

Raymond James Trust Company and Raymond James Trust Company West provide personal trust services primarily to existing clients of the broker-dealer subsidiaries. Portfolio management of trust assets is often subcontracted to the asset management operations of the Company. These two subsidiaries had a combined total of approximately \$1.3 billion in client assets at September 30, 2006, including \$54 million in the donor-advised charity known as the Raymond James Charitable Endowment Fund.

**Proprietary Private Equity Funds**

The Company has sponsored two private equity funds to date: Raymond James Capital Partners, L.P., a merchant banking limited partnership; and Ballast Point Ventures, L.P., a venture capital limited partnership (the "Funds"). The Company, through wholly owned subsidiaries, earns management fees for services provided to the Funds and participates in profits or losses through both general and limited partnership interests.

**RAYMOND JAMES BANK, FSB**

RJBank is a federally chartered savings bank, regulated by the Office of Thrift Supervision, which provides residential, consumer and commercial loans, as well as FDIC-insured deposit accounts, to clients of the Company's broker-dealer subsidiaries and to the general public. RJBank also purchases residential whole loan packages and is active in bank participations and corporate loan syndications. RJBank generates revenue principally through the interest income earned on the transactions noted above, offset by the interest expense it incurs on client deposits and on its borrowings.

RJBank operates from a single branch location adjacent to the Company's headquarters complex in St. Petersburg, Florida. Access to RJBank's products and services is available nationwide through the offices of its affiliated broker-dealer firms as well as through convenient telephonic and electronic banking services. As of September 30, 2006, RJBank had total assets of \$3.1 billion, with 90% of the bank's \$2.8 billion in deposits consisting of cash balances swept from the investment accounts of RJA and RJFS clients. These balances are held in the FDIC insured Raymond James Bank Deposit Program administered by RJA. Other than the foregoing, no single client accounts for a material percentage of the segment's total business.

**EMERGING MARKETS**

Raymond James International Holdings, Inc. ("RJIH") currently has interests in joint ventures in Argentina, India, Turkey, and Uruguay. These joint ventures operate in securities brokerage, investment banking and asset management. In addition, RJIH owns Raymond James Global Securities, Inc. ("RJGS"), a broker-dealer which clears business predominantly for Latin American entities. RJGS is incorporated in the British Virgin Islands and utilizes the correspondent clearing services of RJA. No single client accounts for a material percentage of this segment's total business.

**STOCK LOAN/BORROW**

This activity involves the borrowing and lending of securities from and to other broker-dealers, financial institutions and other counterparties, generally as an intermediary. The borrower of the securities puts up a cash deposit, commonly 102% of the market value of the securities, on which interest is earned. Accordingly, the lender receives cash and pays interest. These cash deposits are adjusted daily to reflect changes in current market value. The net revenues of this operation are the interest spreads generated. No single client accounts for a material percentage of this segment's total business.

**OTHER**

This segment includes various investment and corporate activities of Raymond James Financial, Inc.

## COMPETITION

The Company is engaged in intensely competitive businesses. The Company competes with many larger, better capitalized providers of financial services, including other securities firms, some of which are affiliated with major financial services companies, insurance companies, banking institutions and other organizations. The Company also competes with a number of firms offering on-line financial services and discount brokerage services, usually with lower levels of service, to individual clients. The Company competes principally on the basis of quality of its associates, service, product selection, location and reputation in local markets.

In the financial services industry, there is significant competition for qualified associates. The Company's ability to compete effectively in its businesses is substantially dependent on its continuing ability to attract, retain, and motivate qualified associates, including successful Financial Advisors, investment bankers, trading professionals, portfolio managers and other revenue-producing or specialized personnel.

## REGULATION

The following discussion sets forth some of the material elements of the regulatory framework applicable to the financial services industry and provides some specific information relevant to the Company. The regulatory framework is intended primarily for the protection of customers and the securities markets, depositors and the Federal Deposit Insurance Fund and not for the protection of creditors or shareholders. Under certain circumstances, these rules may limit the ability of the Company to make capital withdrawals from its broker-dealer subsidiaries.

To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on the Company's business.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including:

- . sales methods
- . trading practices
- . uses and safekeeping of clients' funds and securities
- . capital structure and financial soundness
- . record keeping
- . the conduct of directors, officers and employees
- . internal controls
- . insurance requirements

The financial services industry in the U.S. is subject to extensive regulation under federal and state laws. The SEC is the federal agency charged with administration of the federal securities laws. Financial services firms are also subject to regulation by state securities commissions in those states in which they conduct business. RJA and RJFS are currently registered as broker-dealers in all 50 states. In addition, financial services firms are subject to regulation by various foreign governments, securities exchanges, central banks and regulatory bodies, particularly in those countries where they have established offices. Various Company affiliates have offices in France, the United Kingdom, Germany, Switzerland, Belgium, Luxemburg, Turkey, Argentina, India, British Virgin Islands, Canada and Uruguay.

Much of the regulation of broker-dealers in the U.S. and Canada, however, has been delegated to self-regulatory organizations ("SROs"), principally the NASD, the NYSE and other securities exchanges. These SROs adopt and amend rules (which are subject to approval by the SEC) for governing the industry and conduct periodic examinations of member broker-dealers.

The SEC, SROs and state securities commissions may conduct administrative proceedings that can result in censure, fine, suspension or expulsion of a broker-dealer, its officers or employees. Such administrative proceedings, whether or not resulting in adverse findings, can require substantial expenditures and can have an adverse impact on the reputation of a broker-dealer.

The Company's U.S. broker-dealer subsidiaries are required by federal law to belong to SIPC. When the SIPC fund falls below a certain amount, members are required to pay annual assessments of up to 1% of adjusted gross revenues. As a result of adequate fund levels, each of the Company's domestic broker-dealer subsidiaries was required to pay only the minimum annual assessment of \$150 in fiscal 2006. The SIPC fund provides protection for securities held in customer accounts up to \$500,000 per customer, with a limitation of \$100,000 on claims for cash balances. In December 2003, RJA joined with other major U.S. securities brokerage firms to form Customer Asset Protection Company ("CAPCO"), a licensed Vermont insurance company, to provide excess SIPC coverage. CAPCO provides account protection for the total net equity of client accounts of participating firms with no aggregate limit. CAPCO has received a financial strength rating of A+ from Standard and Poor's. These coverages do not protect against market fluctuations.

The financial services industry in Canada is subject to comprehensive regulation under both federal and provincial laws. Securities commissions have been established in 13 provinces and territorial jurisdictions and are charged with the administration of securities laws. RJ Ltd. is currently registered in all Canadian jurisdictions. Securities dealers in Canada are also subject to regulation by SROs which are responsible for the enforcement of and conformity with securities legislation for their members and have been granted the powers to prescribe their own rules of conduct and financial requirements of members. RJ Ltd. is regulated by the securities commissions in the jurisdictions of registration as well as by the SROs, the IDA and Market Regulation Services Inc.

RJ Ltd. is required by the IDA to belong to the Canadian Investors Protection Fund ("CIPF"), whose primary role is investor protection. The CIPF may charge member firms assessments based on revenues and risk premiums based on capital deficiencies. The CIPF provides protection for securities and cash held in client accounts up to CDN\$1,000,000 per client with separate coverage of CDN\$1,000,000 for certain types of accounts. This coverage does not protect against market fluctuations.

See Note 19 of the Notes to Consolidated Financial Statements for further information on SEC and IDA regulations pertaining to broker-dealer regulatory minimum net capital requirements.

The Company's investment advisory operations, including the Company-sponsored mutual funds, are also subject to extensive regulation. The Company's U.S. asset managers are registered as investment advisors with the SEC and are also required to make notice filings in certain states. Virtually all aspects of the asset management business are subject to various federal and state laws and regulations. These laws and regulations are primarily intended to benefit the asset management clients and generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict an investment advisor from conducting its asset management business in the event that it fails to comply with such laws and regulations. Possible sanctions that may be imposed for a failure include the suspension of individual employees, limitations on the asset managers engaging in the asset management business for specified periods of time, the revocation of registrations, and other censures and fines. A regulatory proceeding, regardless of whether it results in a sanction, can require substantial expenditures and can have an adverse effect on the reputation of an asset manager.

RJBank is subject to various regulatory capital requirements established by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on RJBANK's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, RJBANK must meet specific capital guidelines that involve quantitative measures of RJBANK's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. RJBANK's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require RJBANK to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets (as defined in the regulations). See Note 19 of the Notes to the Consolidated Financial Statements for further information and capital analysis.

The Company's two state-chartered trust companies are subject to regulation by the states in which they are chartered. These regulations focus on, among other things, the soundness of internal controls in place at the trust companies.

As a public company, the Company is subject to corporate governance requirements established by SEC and NYSE, as well as federal and state law. Under the Sarbanes-Oxley Act, the Company is required to meet certain requirements regarding business dealings with members of the Board of Directors, the structure of its Audit Committee, and ethical standards for its senior financial officers, among other things. Under SEC and NYSE rules, the Company is required to comply with other standards of corporate governance, including having a majority of independent directors serve on its Board of Directors, and the establishment of independent audit, compensation and corporate governance committees.

Under Section 404 of the Sarbanes-Oxley Act, the Company is required to complete an assessment of its internal controls over financial reporting and to obtain reports from its independent auditors regarding their opinion of management's assessment of internal controls and their independent opinion regarding the Company's internal control over financial reporting. This requirement imposes additional costs on the Company, reflecting internal staff and management time, as well as additional audit fees and fees for outside service providers and consultants since the Act went into effect.

#### **OTHER INFORMATION MADE AVAILABLE BY THE COMPANY**

The Company's internet address is [www.raymondjames.com](http://www.raymondjames.com). The Company makes available, free of charge, through links to the U.S. Securities and Exchange Commission website, the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the Company's proxy statements. Investors can find this information under "About Our Company - Financial Results and SEC Filings". These reports are available through the Company's website as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC.

Additionally, the Company makes available on its website under "About Our Company - Inside Raymond James - Corporate Governance", a number of its corporate governance documents. These include; the Corporate Governance Principles, the charters of the Audit Committee and the Corporate Governance, Nominating and Compensation Committee of the Board of Directors, the Senior Financial Officers' Code of Ethics and the Codes of Ethics for Employees and the Board of Directors. Printed copies of these documents will be furnished to any shareholder who requests them. The information on the Company's websites are not incorporated by reference into this report.

#### **Factors Affecting "Forward-Looking Statements"**

From time to time, the Company may publish "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, or make oral statements that constitute forward-looking statements. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products, anticipated market performance, and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company cautions readers that a variety of factors could cause the Company's actual results to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. These risks and uncertainties, many of which are beyond the Company's control, are discussed in Item 1A, "Risk Factors" in this report. The Company does not undertake any obligation to publicly update or revise any forward-looking statements.

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#### **ITEM 1A. RISK FACTORS**

##### **Economic and Political Developments and Their Impact on Securities Markets Could Adversely Affect the Company's Business**

The Company is engaged in various financial services businesses. As such, the Company is directly affected by general economic and political conditions, changes in the rate of inflation and the related impact on securities markets, fluctuations in interest and currency rates, investor confidence, and changes in volume and price levels of the securities markets. Severe market fluctuations or weak economic conditions could reduce the Company's trading volume and net revenues and adversely affect its profitability.

##### **The Company Faces Intense Competition**

The Company is engaged in intensely competitive businesses. See the section entitled "Competition" of Item 1 of this report for additional information about the Company's competitors. Competitive pressures experienced by the Company could have an adverse affect on its business, results of operations, financial condition and liquidity.

### **Regulatory and Legal Developments Could Adversely Affect the Company's Business**

The securities industry is subject to extensive regulation and broker-dealers are subject to regulations covering all aspects of the securities business. See the section entitled "Regulation" of Item 1 of this report for additional information regarding the Company's regulatory environment and Item 3, "Legal Proceedings", for a discussion of the Company's legal matters. The Company could be subject to civil liability, criminal liability, or sanctions, including revocation of its subsidiaries' registrations as investment advisors or broker-dealers, revocation of the licenses of its Financial Advisors, censures, fines, or a temporary suspension or permanent bar from conducting business, if it violates such laws or regulations. Any such liability or sanction could have a material adverse effect on the Company's financial condition, results of operations, and business prospects. In addition, the regulatory environment in which the Company operates frequently changes and has seen significant increased regulation in recent years. The Company may be adversely affected as a result of new or revised legislation or regulations, changes in federal, state or foreign tax laws, or by changes in the interpretation or enforcement of existing laws and regulations.

### **The Company's Business Is Highly Dependent on Technology**

The Company's businesses rely extensively on electronic data processing and communications systems, and its continued success will depend upon its ability to successfully maintain and upgrade the capability of those systems and retain skilled information technology employees. Failure of those systems, which could result from events beyond the Company's control, could result in financial losses, liability to clients and damage to the Company's reputation.

### **The Company's Operations Could Be Adversely Affected By Serious Weather Conditions**

The Company's principal operations are located in St. Petersburg, Florida. During 2004 and 2005, there was a significant increase in hurricane activity on the Gulf Coast which has directly affected other parts of Florida. While the Company has a business continuity plan that permits significant operations to be conducted from its Southfield, Michigan location (see Item 1, "Business" in this report), the Company's operations could be adversely affected by hurricanes or other serious weather conditions that could affect processing of transactions and communications. In addition, as a result of high levels of storm induced damage during these years in Florida and along the Gulf Coast, insurance coverage for wind and flood damage has become harder to obtain and substantially more expensive. As a consequence, the Company has been forced to pay more for the limited coverage it obtained and self-insure against these risks to a greater degree than in the past.

### **The Company's Business is Dependent on Fees Generated from the Distribution of Financial Products**

A large portion of the Company's revenues are derived from fees generated from the distribution of financial products such as mutual funds and variable annuities. Changes in the structure or amount of the fees paid by the sponsors of these products could directly affect the Company's revenues and profits.

### **Other Risks**

See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in this report regarding the Company's exposure to, and approaches to managing, market risk, interest rate risk, equity price risk, credit risk, operational risk and regulatory and legal risk.

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### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

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**ITEM 2. PROPERTIES**

The Company's headquarters is located on approximately 55 acres within the Carillon office park in St. Petersburg, Florida. The headquarters complex currently includes four main towers which encompass a total of 884,000 square feet of office space, the Raymond James Bank building, which is a 26,000-square-foot two-story building, and two five-story parking garages. At this location, the Company has the ability to add approximately 490,000 square feet of new office space. Raymond James also has 30,000 square feet of leased space near Carillon. The Company's facilities are used to some extent for current operations of all segments. The Company relocated its Detroit, Michigan operations to a newly renovated 84,000 square foot building on 14 acres in Southfield, Michigan. The Company owns that real estate as well as a 45,000 square foot building in Detroit that previously housed those operations. The Company intends to sell the Detroit building.

The Company leases offices in various locations throughout the U.S. and in certain foreign countries. With the exception of a Company-owned RJA branch office building in Crystal River, FL, RJA branches are leased with various expiration dates through 2014. RJ Ltd. leases premises for main offices in Vancouver, Calgary, and Toronto and for branch offices throughout Canada. These leases have various expiration dates through 2013. RJ Ltd. does not own any land or buildings. See Note 13 to Consolidated Financial Statements for further information regarding the Company's leases.

Leases for branch offices of RJFS, the independent contractors of RJ Ltd. and RJIS are the responsibility of the respective independent contractor Financial Advisors.

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**ITEM 3. LEGAL PROCEEDINGS**

The Company is a defendant or co-defendant in various lawsuits and arbitrations incidental to its securities business. Like others in the retail securities industry, the Company experienced a significant increase in the number of claims seeking recovery due to portfolio losses in the early 2000's. During the past year, the number of claims has declined to more historic levels.

As previously reported, RJF and RJFS were defendants in a series of lawsuits and arbitrations relating to an alleged mortgage lending program known as the "Premiere 72" program, that was administered by a company owned in part by two individuals who were registered as Financial Advisors with RJFS in Houston. In July 2005, RJFS paid approximately \$24 million in a settlement with approximately 380 claimants in this litigation, representing approximately two-thirds of the outstanding claims. RJFS has settled with an additional 150 claimants for a lump sum of \$18 million. These settlements effectively extinguish the Company's liability with the exception of one remaining lawsuit in federal court involving one claimant family group.

On September 27, 2005, the State of Utah filed a petition for Order of Censure, Suspension of License and Imposition of Fine against RJFS related to the alleged failure to supervise a former Financial Advisor. The Utah Securities Division asked the Division Director to enter an order censuring the Company, suspending its license in Utah for 30 days, ordering a fine of \$100,000 and requiring the engagement of an independent consultant to review its supervisory structure and procedures. In September 2006, RJFS agreed without admitting or denying the State's findings, to a fine of \$100,000.

Raymond James Yatrym Menkul Kyymetler A. S., ("RJY"), the Company's Turkish affiliate, was assessed for the year 2001 approximately US\$6.8 million by the Turkish tax authorities. The authorities applied a significantly different methodology than in the prior year's audit. RJY is vigorously contesting most aspects of this assessment and has filed an appeal with the Turkish tax court. Audits of 2002 through 2004 are anticipated and their outcome is unknown in light of the change in methodology and the pending litigation. The Company has made provision in its consolidated financial statements for its estimate of the reasonable potential exposure for this matter. As of September 30, 2006, RJY had total capital of approximately US\$6.4 million, of which the Company owns approximately 73%.

The Company is contesting the allegations in this and other cases and believes that there are meritorious defenses in each of these lawsuits and arbitrations. In view of the number and diversity of claims against the Company, the number of jurisdictions in which litigation is pending and the inherent difficulty of predicting the outcome of litigation and other claims, the Company cannot state with certainty what the eventual outcome of pending litigation or other claims will be. In the opinion of the Company's management, based on current available information, review with outside legal counsel, and consideration of amounts provided for in the accompanying consolidated financial statements with respect to these matters, ultimate resolution of these matters will not have a material adverse impact on the Company's financial position or results of operations. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and upon the level of income for such period.

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

None.

**PART II**

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

The Company's common stock is traded on the NYSE under the symbol "RJF". At December 5, 2006 there were approximately 14,000 holders of the Company's common stock. The following table sets forth for the periods indicated the high and low trades for the common stock (as adjusted for the three-for-two stock split in March 2006).

|                | 2006     |          | 2005     |          |
|----------------|----------|----------|----------|----------|
|                | High     | Low      | High     | Low      |
| First Quarter  | \$ 25.72 | \$ 20.25 | \$ 20.91 | \$ 15.57 |
| Second Quarter | 31.45    | 24.47    | 22.79    | 19.27    |
| Third Quarter  | 31.66    | 26.34    | 20.85    | 17.25    |
| Fourth Quarter | 30.57    | 26.45    | 21.46    | 18.33    |

See Quarterly Financial Information in Item 8 for the amount of the quarterly dividends paid.

The Company expects to continue paying cash dividends. 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, including the broker-dealer subsidiaries, which may be subject to restrictions under the net capital rules of the SEC, NYSE, NASD and the IDA; and RJBank, which may be subject to restrictions by federal banking agencies. Such restrictions have never become applicable with respect to the Company's dividend payments. (See Note 19 of the Notes to Consolidated Financial Statements for more information on the capital restrictions placed on RJBank and the Company's broker-dealer subsidiaries).

See Note 15 of the Notes to Consolidated Financial Statements for information regarding repurchased shares of the Company's common stock.

**ITEM 6. SELECTED FINANCIAL DATA**

|                                   | Year Ended        |                   |                   |                   |                   |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                   | Sept. 30,<br>2006 | Sept. 30,<br>2005 | Sept. 24,<br>2004 | Sept. 26,<br>2003 | Sept. 27,<br>2002 |
| (in 000's, except per share data) |                   |                   |                   |                   |                   |
| <b>Operating Results:</b>         |                   |                   |                   |                   |                   |
| Gross revenues                    | \$ 2,632,757      | \$2,156,997       | \$1,829,776       | \$1,497,571       | \$1,517,423       |
| Net revenues                      | \$ 2,336,087      | \$2,039,208       | \$1,781,259       | \$1,451,960       | \$1,441,088       |
| Net income                        | \$ 214,342        | \$ 151,046        | \$ 127,575        | \$ 86,317         | \$ 79,303         |
| Net income per                    |                   |                   |                   |                   |                   |
| Share - basic: *                  | \$ 1.90           | \$ 1.37           | \$ 1.16           | \$ .79            | \$ .72            |
| Net income per                    |                   |                   |                   |                   |                   |
| Share - diluted: *                | \$ 1.85           | \$ 1.33           | \$ 1.14           | \$ .78            | \$ .71            |
| <b>Weighted average</b>           |                   |                   |                   |                   |                   |
| common shares                     |                   |                   |                   |                   |                   |
| outstanding - basic: *            | 112,614           | 110,217           | 110,093           | 109,236           | 109,517           |
| <b>Weighted average</b>           |                   |                   |                   |                   |                   |
| common and common                 |                   |                   |                   |                   |                   |
| equivalent shares                 |                   |                   |                   |                   |                   |
| outstanding - diluted: *          | 115,738           | 113,048           | 111,603           | 110,624           | 111,666           |
| <b>Cash dividends declared</b>    |                   |                   |                   |                   |                   |
| per share *                       | \$ .32            | \$ .21            | \$ .17            | \$ .16            | \$ .16            |
| <b>Financial Condition:</b>       |                   |                   |                   |                   |                   |
| Total assets                      | \$11,516,650      | \$8,369,256       | \$7,621,846       | \$6,911,638       | \$6,040,303       |
| Long-term debt                    | \$ 286,712 **     | \$ 280,784 **     | \$ 174,223        | \$ 167,013        | \$ 147,153        |
| Shareholders' equity              | \$ 1,463,869      | \$1,241,823       | \$1,065,213       | \$ 924,735        | \$ 839,636        |
| Shares outstanding *              | 114,064 ***       | 113,394           | 110,769           | 109,148           | 109,517           |
| <b>Equity per share</b>           |                   |                   |                   |                   |                   |
| at end of period*                 | \$ 12.83          | \$ 10.95          | \$ 9.62           | \$ 8.47           | \$ 7.67           |

\* Gives effect to the three-for-two stock splits paid on March 22, 2006 and March 24, 2004.

\*\* Includes loans payable related to investments by variable interest entities in real estate partnerships, which are non-recourse to the Company.

\*\*\* Excludes non-vested shares.

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

**Overview**

The following Management's Discussion and Analysis is intended to help the reader understand the results of operations and the financial condition of the Company. Management's Discussion and Analysis is provided as a supplement to, and should be read in conjunction with, the Company's consolidated financial statements and accompanying notes to the consolidated financial statements.

The Company's results continue to be highly correlated to the direction of the U.S. equity markets and are subject to volatility due to changes in interest rates, valuation of financial instruments, economic and political trends and industry competition. An environment favorable to the Company's results is characterized by a stable political environment, low inflation, low unemployment, upward-trending financial markets, and strong corporate profitability, all of which have a positive influence on investor confidence. During fiscal 2006, long term inflation expectations remained low and the Federal Reserve continued its measured short-term interest rate increases with six 25 basis point rate increases during the first nine months of the year. The Dow Jones Industrial Average, S&P 500 and NASDAQ indices rose 11%, 9% and 5%, respectively, during the fiscal year.

**Results of Operations - Total Company**

The Company currently operates through the following seven business segments: Private Client Group; Capital Markets; Asset Management; RJBank; Emerging Markets; Stock Loan/Borrow and various corporate investments and expenses combined in the "Other" segment.

The following table presents consolidated and segment financial information for the Company for the years indicated:

|                                | Year Ended    |               |               |
|--------------------------------|---------------|---------------|---------------|
|                                | September 30, | September 30, | September 24, |
|                                | 2006          | 2005          | 2004          |
|                                | (in 000's)    |               |               |
| <b>Total Company</b>           |               |               |               |
| Revenues                       | \$ 2,632,757  | \$ 2,156,997  | \$ 1,829,776  |
| Pretax earnings                | 342,066       | 247,971       | 204,121       |
| <b>Private Client Group</b>    |               |               |               |
| Revenues                       | 1,679,813     | 1,397,578     | 1,202,368     |
| Pretax earnings                | 168,519       | 102,245       | 107,122       |
| <b>Capital Markets</b>         |               |               |               |
| Revenues                       | 487,419       | 455,151       | 400,787       |
| Pretax earnings                | 78,221        | 77,333        | 57,910        |
| <b>Asset Management</b>        |               |               |               |
| Revenues                       | 200,124       | 171,916       | 148,160       |
| Pretax earnings                | 48,095        | 40,841        | 27,875        |
| <b>RJBank</b>                  |               |               |               |
| Revenues                       | 114,692       | 45,448        | 28,104        |
| Pretax earnings                | 16,003        | 14,204        | 8,824         |
| <b>Emerging Markets</b>        |               |               |               |
| Revenues                       | 55,263        | 38,768        | 27,675        |
| Pretax earnings                | 2,857         | 5,927         | 4,304         |
| <b>Stock Loan/Stock Borrow</b> |               |               |               |
| Revenues                       | 59,947        | 31,876        | 16,372        |
| Pretax earnings                | 8,001         | 5,962         | 2,135         |
| <b>Other</b>                   |               |               |               |
| Revenues                       | 35,499        | 16,260        | 6,310         |
| Pretax earnings (loss)         | 20,370        | 1,459         | (4,049)       |

Year ended September 30, 2006 Compared with the Year ended September 30, 2005 - Total Company

The Company had record annual revenues and earnings for the third consecutive year, with net revenues surpassing \$2.3 billion. Non-interest expenses rose by 12%, contrasted to a 15% increase in net revenues. Net income exceeded \$200 million for the first time in the Company's history, up 42% from the prior year. Driven by a 36% increase in net interest earnings (see table below) combined with solid increases in investment advisory fees (14%) and securities commissions and fees (10%), a modest (6%) increase in investment banking revenues and an increase in financial service fees (35%), all of the Company's four major segments had higher revenues and pretax income than in the prior year.

Total firm net revenues increased 15%, while pretax profits after consideration of minority interest were up 38% over the prior year.

Year ended September 30, 2005 Compared with the Year ended September 24, 2004 - Total Company

The Company had record results for its fiscal year ended September 30, 2005, with both total and net revenues surpassing \$2 billion. Net income of over \$150 million was up 18% from the prior year. Driven by robust increases in investment banking revenues (41%) and net interest earnings (48% - see table below) combined with solid increases in investment advisory fees (17%) and securities commissions and fees (10%), all three of the Company's largest segments had significantly higher revenues than in the prior year. Capital Markets and Asset Management had even more impressive increases in pretax profits (34% and 47%, respectively). Private Client Group earnings were negatively impacted by legal expenses and settlements.

Total firm net revenues increased 14%, while pretax profits after consideration of minority interest were up 21% over the prior year.

**Net Interest Analysis**

|  | Year Ended         |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | September 30, 2006 | September 30, 2005 | September 24, 2004 |
|  | (\$ in 000's)      |                    |                    |
| <b>Interest Revenue</b>                            |                    |                    |                    |
| Margin balances:                                   |                    |                    |                    |
| Average balance                                    | \$ 1,327,121       | \$ 1,218,486       | \$ 1,006,007       |
| Average rate                                       | 7.4%               | 5.6%               | 4.0%               |
| Interest revenue - margin balances                 | 98,417             | 68,125             | 39,750             |
| Assets segregated pursuant to federal regulations: |                    |                    |                    |
| Average balance                                    | 2,983,853          | 2,390,174          | 2,288,593          |
| Average rate                                       | 4.8%               | 2.8%               | 1.1%               |
| Interest revenue - segregated assets               | 141,741            | 65,847             | 24,832             |
| Raymond James Bank, FSB interest revenue:          |                    |                    |                    |
| Average earning assets                             | 1,980,547          | 1,063,973          | 882,123            |
| Average rate                                       | 5.8%               | 4.2%               | 3.1%               |
| Interest revenue - Raymond James Bank, FSB         | 114,065            | 45,017             | 27,318             |
| Stock borrowed interest revenue                    | 59,947             | 31,876             | 16,372             |
| Interest revenue- variable interest entities       | 1,008              | 822                | -                  |
| Other interest revenue                             | 54,803             | 33,875             | 26,492             |
| <b>Total interest revenue</b>                      | <b>\$ 469,981</b>  | <b>\$ 245,562</b>  | <b>\$ 134,764</b>  |
| <b>Interest Expense</b>                            |                    |                    |                    |
| Client interest program:                           |                    |                    |                    |
| Average balance                                    | \$ 3,793,570       | \$ 3,228,443       | \$ 2,715,667       |
| Average rate                                       | 3.8%               | 1.8%               | 0.4%               |
| Interest expense - client interest program         | 143,428            | 58,486             | 11,659             |
| Raymond James Bank, FSB interest expense:          |                    |                    |                    |
| Average interest bearing liabilities               | 1,801,747          | 971,013            | 811,268            |
| Average rate                                       | 4.1%               | 2.3%               | 1.2%               |
| Interest expense - Raymond James Bank, FSB         | 73,529             | 22,020             | 9,863              |
| Stock loaned interest expense                      | 47,593             | 22,873             | 12,405             |
| Interest expense- variable interest entities       | 8,368              | 3,934              | -                  |
| Other interest expense                             | 23,752             | 10,476             | 14,590             |
| <b>Total interest expense</b>                      | <b>\$ 296,670</b>  | <b>\$ 117,789</b>  | <b>\$ 48,517</b>   |
| <b>Net interest income</b>                         | <b>\$ 173,311</b>  | <b>\$ 127,773</b>  | <b>\$ 86,247</b>   |

Over half of the increase in pretax income was made up of the increase in net interest, 39% of which was generated by RJBank. This increase was a result of the substantial increase in customer deposits and corresponding loan balances at RJBank resulting from the Company's inception of a new cash sweep option for certain brokerage clients. The remainder of the increase in interest earnings was primarily related to increased cash balances in customer accounts at the broker-dealers, on which the Company earns a spread, and increased interest earnings on corporate cash balances.

### **Results of Operations - Private Client Group**

The following table presents consolidated financial information for the Private Client Group segment for the years indicated:

|  | <b>Year Ended</b>             |                            |                               |                            |                               |
|--|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
|  | <b>September 30,<br/>2006</b> | <b>% Incr.<br/>(Decr.)</b> | <b>September 30,<br/>2005</b> | <b>% Incr.<br/>(Decr.)</b> | <b>September 24,<br/>2004</b> |
|  | (\$ in 000's)                 |                            |                               |                            |                               |
| <b>Revenues:</b>                                 |                               |                            |                               |                            |                               |
| Securities commissions and fees                  | \$ 1,262,751                  | 12%                        | \$ 1,132,291                  | 11%                        | \$ 1,016,001                  |
| Interest   | 248,709                       | 77%                        | 140,807                       | 97%                        | 71,484                        |
| Financial service fees                           | 93,421                        | 40%                        | 66,774                        | 12%                        | 59,606                        |
| Other  | 74,932                        | 30%                        | 57,706                        | 4%                         | 55,277                        |
| <b>Total revenue</b>                             | <b>1,679,813</b>              | <b>20%</b>                 | <b>1,397,578</b>              | <b>16%</b>                 | <b>1,202,368</b>              |
| Interest expense                                 | 139,593                       | 130%                       | 60,796                        | 368%                       | 12,996                        |
| <b>Net revenues</b>                              | <b>1,540,220</b>              | <b>15%</b>                 | <b>1,336,782</b>              | <b>12%</b>                 | <b>1,189,372</b>              |
| <b>Non-interest expenses:</b>                    |                               |                            |                               |                            |                               |
| Sales commissions                                | 940,567                       | 14%                        | 825,889                       | 12%                        | 735,194                       |
| Admin & incentive comp and benefit costs         | 233,684                       | 13%                        | 207,368                       | 11%                        | 187,469                       |
| Communications and information processing        | 53,064                        | 8%                         | 49,183                        | 25%                        | 39,387                        |
| Occupancy and equipment                          | 51,101                        | 11%                        | 46,114                        | -                          | 46,197                        |
| Business development                             | 50,555                        | 21%                        | 41,719                        | 11%                        | 37,602                        |
| Clearance and other                              | 42,836                        | (34%)                      | 65,166                        | 75%                        | 37,158                        |
| <b>Total non-interest expenses</b>               | <b>1,371,807</b>              | <b>11%</b>                 | <b>1,235,439</b>              | <b>14%</b>                 | <b>1,083,007</b>              |
| <b>Income before taxes and minority interest</b> | <b>168,413</b>                | <b>65%</b>                 | <b>101,343</b>                | <b>(5%)</b>                | <b>106,365</b>                |
| Minority interest                                | (106)                         |                            | (902)                         |                            | (757)                         |
| <b>Pretax earnings</b>                           | <b>\$ 168,519</b>             | <b>65%</b>                 | <b>\$ 102,245</b>             | <b>(5%)</b>                | <b>\$ 107,122</b>             |
| <b>Margin on net revenue</b>                     | <b>10.9%</b>                  |                            | <b>7.6%</b>                   |                            | <b>9.0%</b>                   |

### **Year ended September 30, 2006 Compared with the Year ended September 30, 2005 - Private Client Group**

The Private Client Group's ("PCG") results include a \$130 million increase in commission and fee revenues. While commission and fee revenues increased in the PCG segment of all three broker-dealers, the increases were far more significant in RJA and RJ Ltd. where there has been an increase in the number of Financial Advisors due to successful recruiting. RJA added a net 65 employee Financial Advisors and increased the average production from \$379,000 in fiscal 2005 to \$404,000 in fiscal 2006. In addition, average assets under management per RJA Financial Advisor has increased to an all time high of \$58 million from \$50 million at September 2005. RJA has successfully focused on recruiting high-producing Financial Advisors and continued to benefit from industry consolidation. RJA commissions and fees increased 23%. RJ Ltd. added 20 employee Financial Advisors and 13 independent contractor Financial Advisors. RJ Ltd. commissions and fees increased 27%. The modest 5.7% increase in RJFS commissions and fees is primarily attributable to a \$65.7 million, or 15.6%, increase in fee based business and mutual fund trails.

PCG net interest earnings increased 36% over the prior fiscal year, a combined result of increased client margin balances (up 9%) and increased customer cash balances, on which a spread is earned. Net interest represented 65% of the segment's pretax earnings, down from 78% in fiscal 2005.

Financial Service Fees in the PCG segment increased \$26.6 million, or 40% over the prior year. The increase included a one-time adjustment of approximately \$10 million related to a change from cash to accrual accounting for IRA fees. The increase in other revenue of \$17.2 million is predominantly made up of increased mutual fund networking fees and the newly introduced educational and marketing support fee from mutual fund companies.

Commission expenses increased 2% more than commission revenue, the result of an increased number of independent contractors (who receive higher payouts) in RJ Ltd, the advances associated with recruiting at RJA and higher payout levels to more productive Financial Advisors. Admin and incentive compensation increased due to the increase in the segment's profits and an increased number of support staff related to the growing number of Financial Advisors in RJA and increased compliance staff in RJFS. Business development expenses increased as it includes advertising costs and increased travel and other expenses related to recruiting. Other expenses declined as prior years' expense included historically high legal costs and settlements related to the 2000 - 2002 market decline.

PCG margins increased by more than 3% over the prior year, reaching 10.9%. The prior year was negatively impacted by the historically high legal costs and settlements, and the expense of the early stages of independent contractor business in the UK and at RJ Ltd.

#### Year ended September 30, 2005 Compared with the Year ended September 24, 2004 - Private Client Group

The Private Client Group's results reflect an 11% increase in commission and fee revenue. Due to the continued process of upgrading the Company's Financial Advisor population, which encompassed the termination of lower producers, the net increase in the number of Financial Advisors was only 2%. The Company's branding campaign, which has increased the visibility of the firm name, and the promotion of the AdvisorChoice platform for Financial Advisors has helped to increase Financial Advisor interest in the Company. In particular, the employee firm (RJA) had strong recruiting results in the latter half of the year as the Company benefited from industry consolidation. Most of the increase in commission and fee revenue is attributable to the increased average production of Financial Advisors and was close to the Company's goal of a 10% increase per year. Further productivity gains may be expected, provided the market conditions remain favorable, as newly recruited Financial Advisors complete the transition of their accounts and existing Financial Advisors grow their businesses.

While average margin balances increased 21% for the fiscal year, interest revenues within PCG increased 97% as a result of rising short-term interest rates, which also led to higher than normal spreads. Accordingly, PCG net interest earnings increased 37%, and represented nearly 78% of this segment's earnings.

Commission expense grew ratably with commission and fee revenue. Increased administrative compensation costs include cost of living raises, a 6% increase in employee headcount and increased incentive compensation and benefit plan accruals related to increased corporate profitability. Communications and Information Processing expense increased as the Company continues its efforts to provide state of the art technology to its Financial Advisors. Business Development expense includes the marketing expenditures to promote the AdvisorChoice platform to prospective Financial Advisors and the Company's branding efforts - including a new television ad and increased air time. These efforts, combined with the stadium naming rights for the Tampa Bay Buccaneers football stadium, have increased the Company's name recognition nationwide. Business Development expense also includes increased travel expenses related to recruiting efforts and increased attendance at sales and education conferences. Other expense continues to be dominated by legal expenses and settlements.

PCG margins, which were 7.6% in fiscal 2005, were negatively impacted by the losses in the early stage, independent contractor joint venture in the UK, relatively low margins in the private client group in RJ Ltd. (as they grow their independent contractor division) and historically high legal costs and settlements, which has had an estimated 1.5% to 2% impact on PCG margins in each of the past two years.

## Results of Operations - Capital Markets

The following table presents consolidated financial information for the Capital Markets segment for the years indicated:

|  | Year Ended            |                    |                       |                    |                       |
|--|-----------------------|--------------------|-----------------------|--------------------|-----------------------|
|  | September 30,<br>2006 | % Incr.<br>(Decr.) | September 30,<br>2005 | % Incr.<br>(Decr.) | September 24,<br>2004 |
| (\$ in 000's)                                    |                       |                    |                       |                    |                       |
| <b>Revenues:</b>                                 |                       |                    |                       |                    |                       |
| Institutional sales commissions:                 |                       |                    |                       |                    |                       |
| Equity   | \$ 217,840            | 13%                | \$ 193,001            | 11%                | \$ 174,464            |
| Fixed income                                     | 41,830                | (37%)              | 66,431                | (14%)              | 77,102                |
| Underwriting fees                                | 84,303                | 8%                 | 77,900                | 47%                | 53,142                |
| Mergers & acquisitions fees                      | 44,693                | 5%                 | 42,576                | 94%                | 21,928                |
| Private placement fees                           | 2,334                 | (56%)              | 5,338                 | (46%)              | 9,958                 |
| Trading profits                                  | 21,876                | 15%                | 19,089                | (7%)               | 20,579                |
| Raymond James Tax Credit Funds                   | 31,710                | 19%                | 26,630                | 30%                | 20,513                |
| Interest   | 36,311                | 74%                | 20,847                | 45%                | 14,329                |
| Other  | 6,522                 | 95%                | 3,339                 | (62%)              | 8,772                 |
| <b>Total revenue</b>                             | <b>487,419</b>        | <b>7%</b>          | <b>455,151</b>        | <b>14%</b>         | <b>400,787</b>        |
| Interest expense                                 | 46,126                | 133%               | 19,838                | 72%                | 11,543                |
| <b>Net Revenues</b>                              | <b>441,293</b>        | <b>1%</b>          | <b>435,313</b>        | <b>12%</b>         | <b>389,244</b>        |
| <b>Non-interest expenses</b>                     |                       |                    |                       |                    |                       |
| Sales commissions                                | 96,649                | (3%)               | 99,223                | 10%                | 90,184                |
| Admin & incentive comp and benefit costs         | 200,453               | 2%                 | 197,170               | 11%                | 177,168               |
| Communications and information processing        | 27,084                | 13%                | 24,071                | 3%                 | 23,447                |
| Occupancy and equipment                          | 12,073                | (4%)               | 12,563                | 3%                 | 12,252                |
| Business development                             | 22,177                | 17%                | 18,995                | 6%                 | 17,957                |
| Clearance and other                              | 19,907                | 38%                | 14,395                | 39%                | 10,345                |
| <b>Total non-interest expense</b>                | <b>378,343</b>        | <b>3%</b>          | <b>366,417</b>        | <b>11%</b>         | <b>331,353</b>        |
| <b>Income before taxes and minority interest</b> | <b>62,950</b>         | <b>(9%)</b>        | <b>68,896</b>         | <b>19%</b>         | <b>57,891</b>         |
| Minority interest                                | (15,271)              |                    | (8,437)               |                    | (19)                  |
| <b>Pretax earnings</b>                           | <b>\$ 78,221</b>      | <b>1%</b>          | <b>\$ 77,333</b>      | <b>34%</b>         | <b>\$ 57,910</b>      |

### Year ended September 30, 2006 Compared with the Year ended September 30, 2005 - Capital Markets

The Capital Markets segment's revenues and pretax profits increased just slightly from the prior year's record results. Commission revenues in the segment were flat, as the 37% decline in fixed income commissions were offset by the 13% increase in institutional equity commissions, the latter continuing to be fueled by an active new issue market. RJA equity market conditions remained strong, allowing RJA to complete 97 managed or co-managed domestic underwritings, just one short of the record 98 underwritings completed in fiscal 2005. RJ Ltd. completed a record 29 managed or co-managed underwritings, up nine from fiscal 2005. Merger and acquisition fees increased modestly from the prior year's record level, offsetting the decline in private placement fees. Equity Capital Market's most active strategic business units in fiscal 2006 were Energy, Technology, Financial Services and Real Estate.

The \$16 million increase in interest income, predominantly on RJA's fixed income inventories, was offset by an equal increase in interest expense to finance these inventories. Higher interest income and expenses were primarily the result of higher interest rates.

RJTCF's revenues were up 19%, to \$31.7 million, as RJTCF invested over \$276.8 million for institutional investors in 78 real estate transactions compared to \$250 million in 93 deals in fiscal 2005.

Non-interest expense increased 3% over the prior year, with the most significant increase in other expense. This increase was due to increases within the RJTCF variable interest entities, of which 99% is eliminated through minority interest.

Year ended September 30, 2005 Compared with the Year ended September 30, 2004 - Capital Markets

Institutional commissions were relatively flat, with equity commissions up 11% and fixed income commissions down 14%, as trends established in the prior year continued. Although the number of managed/co-managed corporate underwritings was nearly flat, underwriting fees were up 47% as a result of an increased average deal size and a greater number of lead managed deals. Merger and acquisition fees nearly doubled from fiscal 2004. Equity Capital Markets has nine strategic business units; Real Estate, Energy and Healthcare were the strongest performers during fiscal 2005. These record investment banking results contribute significantly to the firm's profits, as incremental revenues produce a high margin.

RJTCF revenues were up 30% and contributed \$5 million to the segment's pretax profits. RJTCF syndicates funds that invest in real estate partnerships that qualify for federal and state low income housing tax credits. During fiscal 2005, RJTCF invested over \$250 million for institutional investors in 93 real estate transactions compared to \$206 million in 80 deals in fiscal 2004.

Interest expense, the expense associated with carrying the fixed income trading inventory, was up due to increased interest rates. Non-interest expense was up 11% - with 83% of that increase related to compensation. The remaining expenses were relatively flat.

**Results of Operations - Asset Management**

The following table presents consolidated financial information for the Asset Management segment for the years indicated:

|  | Year Ended            |                    |                       |                    |                       |
|--|-----------------------|--------------------|-----------------------|--------------------|-----------------------|
|  | September 30,<br>2006 | % Incr.<br>(Decr.) | September 30,<br>2005 | % Incr.<br>(Decr.) | September 24,<br>2004 |
| (\$ in 000's)                                    |                       |                    |                       |                    |                       |
| <b>Revenues</b>                                  |                       |                    |                       |                    |                       |
| Investment advisory fees                         | \$ 170,680            | 13%                | \$ 151,001            | 17%                | \$ 128,696            |
| Other  | 29,444                | 41%                | 20,915                | 7%                 | 19,464                |
| <b>Total revenue</b>                             | <b>200,124</b>        | <b>16%</b>         | <b>171,916</b>        | <b>16%</b>         | <b>148,160</b>        |
| <b>Expenses</b>                                  |                       |                    |                       |                    |                       |
| Admin & incentive comp and benefit costs         | 69,648                | 15%                | 60,318                | 10%                | 54,776                |
| Communications and information processing        | 16,598                | 12%                | 14,803                | 4%                 | 14,284                |
| Occupancy and equipment                          | 4,319                 | 4%                 | 4,170                 | 19%                | 3,502                 |
| Business development                             | 8,530                 | 16%                | 7,331                 | 33%                | 5,493                 |
| Other  | 50,629                | 16%                | 43,730                | 5%                 | 41,575                |
| <b>Total expenses</b>                            | <b>149,724</b>        | <b>15%</b>         | <b>130,352</b>        | <b>9%</b>          | <b>119,630</b>        |
| <b>Income before taxes and minority interest</b> | <b>50,400</b>         | <b>21%</b>         | <b>41,564</b>         | <b>46%</b>         | <b>28,530</b>         |
| Minority interest                                | 2,305                 |                    | 723                   |                    | 655                   |
| <b>Pretax earnings</b>                           | <b>\$ 48,095</b>      | <b>18%</b>         | <b>\$ 40,841</b>      | <b>47%</b>         | <b>\$ 27,875</b>      |

The following table presents assets under management at the dates indicated:

|  | Sept. 30,<br>2006          | % Incr.<br>(Decr.) | Sept. 30,<br>2005          | % Incr.<br>(Decr.) | Sept. 24,<br>2004          |
|--|----------------------------|--------------------|----------------------------|--------------------|----------------------------|
| (\$ in 000's)                                |                            |                    |                            |                    |                            |
| <b>Assets Under Management:</b>              |                            |                    |                            |                    |                            |
| Eagle Asset Mgmt., Inc.                      |                            |                    |                            |                    |                            |
| Retail                                       | \$ 5,600,806               | 19%                | \$ 4,719,275               | 25%                | \$ 3,761,898               |
| Institutional                                | 6,862,611                  | 1%                 | 6,823,906                  | 34%                | 5,080,713                  |
| Total Eagle                                  | <u>12,463,417</u>          | 8%                 | <u>11,543,181</u>          | 31%                | <u>8,842,611</u>           |
| Heritage Family of Mutual Funds              |                            |                    |                            |                    |                            |
| Money Market                                 | 6,306,508                  | 4%                 | 6,058,612                  | 0%                 | 6,071,532                  |
| Other  | 3,004,816                  | 19%                | 2,534,975                  | 28%                | 1,983,580                  |
| Total Heritage                               | <u>9,311,324</u>           | 8%                 | <u>8,593,587</u>           | 7%                 | <u>8,055,112</u>           |
| Raymond James Consulting Services            | 7,915,168                  | 20%                | 6,573,448                  | 37%                | 4,810,935                  |
| Awad Asset Management                        | 996,353                    | (18%)              | 1,222,199                  | (9%)               | 1,349,040                  |
| Freedom Accounts                             | <u>5,122,733</u>           | 105%               | <u>2,496,772</u>           | 153%               | <u>988,010</u>             |
| <b>Total Assets Under Management</b>         | 35,808,995                 | 18%                | 30,429,187                 | 27%                | 24,045,708                 |
| Less: Assets Managed for Affiliated Entities | <u>(3,991,281)</u>         | 36%                | <u>(2,936,804)</u>         | 70%                | <u>(1,728,788)</u>         |
| <b>Third Party Assets Under Management</b>   | <u><b>\$31,817,714</b></u> | 16%                | <u><b>\$27,492,383</b></u> | 23%                | <u><b>\$22,316,920</b></u> |

Year ended September 30, 2006 Compared with the Year ended September 30, 2005 - Asset Management

Investment Advisory fees increased over \$19 million, or 13%, on a nearly 16% increase in assets under management. Increases in assets under management were positively impacted by the recruiting of RJA Financial Advisors. New Financial Advisors brought significant assets into the Company's asset management programs, particularly Eagle and Raymond James Consulting Services ("RJCS"). New managed assets brought in by RJA Financial Advisors totaled \$3.9 billion for fiscal 2006, a 70% increase over \$2.3 billion added in fiscal 2005. Eagle's total retail assets increased 19% over the prior year. Of Eagle's retail asset total, 35% were introduced by Financial Advisors outside the Raymond James system. Account cancellations exceeded sales in Eagle's institutional accounts due to the loss of a few significant accounts and the closing of the Institutional Growth division in September. RJCS offers 40 independent investment advisors to the Company's clients. Assets managed within the program increased 20% over the prior year. The Company's managed mutual fund product (Freedom) continued to experience significant growth (105%) as this concept continues to be embraced by clients and Financial Advisors. Heritage Asset Management's non-money market funds increased 19% with 65% of the sales through broker-dealers outside of the Raymond James family. Heritage money market accounts increased 4% despite the movement of just under \$1 billion to the RJBank sweep option during the year.

Expenses in this segment increased \$19 million (15%) with \$9 million of that increase in compensation. The Compensation increase included increased salary expense, costs associated with closing Eagle's institutional growth division, and increased incentive compensation related to the 18% increase in pretax profits. The other notable increase in expense was a \$7 million (16%) increase in other expense consisting predominantly of the fees paid to outside money managers in RJCS.

Year ended September 30, 2005 Compared with the Year ended September 24, 2004 - Asset Management

Investment advisory fees increased roughly 17%. Due to the billing schedules this increase does not correlate directly to the increase in average assets under management. Approximately one-half of the Company's assets under management are billed based on beginning-of-quarter balances and slightly less than one-third are billed based on average daily balances. The remaining assets under management are predominantly billed based on end-of-quarter balances. The overall growth of managed equity programs was the aggregate result of strong net sales and market appreciation. Eagle Asset Management has several portfolio managers with strong performance records and the firm has been successful in winning a growing number of institutional accounts. Accordingly, assets managed for institutional accounts increased 34% over the prior year. Several of the same portfolio managers also manage portfolios for the Heritage Asset Management family of mutual funds. Assets in these funds, excluding the money market funds, increased 28% over the prior year.

In addition to Eagle portfolio managers, the asset management division of RJA offers 30 independent investment advisors to the Company's clients through its RJCS program. Assets managed within this program have increased 37% over the prior year. The Company has also seen significant growth (153%) in its managed mutual fund product (Freedom) as this concept is extremely popular with Financial Advisors and clients.

Expense growth in this segment was a modest 9%, primarily reflecting increased personnel costs related to profit-based incentive compensation and increased business development expenses related to increased travel and proposal costs. Other expense is predominantly fees paid to outside money managers. With the capacity to increase assets under management significantly in certain disciplines without significant additional costs, there is a higher degree of leverage in this segment and management has a positive outlook on its prospects, provided market conditions do not deteriorate and performance results remain strong.

#### **Results of Operations - RJBANK**

The following table presents consolidated financial information for RJBANK for the years indicated:

|   | <b>For the Years Ended</b>    |                            |                               |                            |                               |
|---|-------------------------------|----------------------------|-------------------------------|----------------------------|-------------------------------|
|   | <b>September 30,<br/>2006</b> | <b>% Incr.<br/>(Decr.)</b> | <b>September 30,<br/>2005</b> | <b>% Incr.<br/>(Decr.)</b> | <b>September 24,<br/>2004</b> |
|   | (\$ in 000's)                 |                            |                               |                            |                               |
| <b>Interest income and expense</b>        |                               |                            |                               |                            |                               |
| Interest income                           | \$ 114,065                    | 153%                       | \$ 45,017                     | 65%                        | \$ 27,318                     |
| Interest expense                          | 73,529                        | 234%                       | 22,020                        | 123%                       | 9,863                         |
| <b>Net interest income</b>                | <b>40,536</b>                 | <b>76%</b>                 | <b>22,997</b>                 | <b>32%</b>                 | <b>17,455</b>                 |
| Other income                              | 627                           | 45%                        | 431                           | (45%)                      | 786                           |
| <b>Net revenues</b>                       | <b>41,163</b>                 | <b>76%</b>                 | <b>23,428</b>                 | <b>28%</b>                 | <b>18,241</b>                 |
| <b>Non-interest expense</b>               |                               |                            |                               |                            |                               |
| Employee compensation and benefits        | 6,135                         | 14%                        | 5,388                         | 15%                        | 4,686                         |
| Communications and information processing | 907                           | 14%                        | 799                           | 5%                         | 758                           |
| Occupancy and equipment                   | 629                           | 32%                        | 478                           | 38%                        | 347                           |
| Provision for loan loss                   | 13,760                        | 891%                       | 1,388                         | (20%)                      | 1,732                         |
| Other                                     | 3,729                         | 218%                       | 1,171                         | (38%)                      | 1,894                         |
| <b>Total non-interest expense</b>         | <b>25,160</b>                 | <b>173%</b>                | <b>9,224</b>                  | <b>(2%)</b>                | <b>9,417</b>                  |
| <b>Pretax earnings</b>                    | <b>\$ 16,003</b>              | <b>13%</b>                 | <b>\$ 14,204</b>              | <b>61%</b>                 | <b>\$ 8,824</b>               |

#### **Year ended September 30, 2006 Compared with the Year ended September 30, 2005 - RJBANK**

Assets at RJBANK grew a substantial \$ 1.8 billion during the year. The increase was driven by a \$1.7 billion increase in deposits, \$1.3 billion of which were redirected from the Company's Heritage Cash Trust or customer brokerage accounts, representing the introduction of a new sweep program for certain brokerage accounts. This alternative offers clients a money market equivalent interest rate and FDIC insurance. The Company intends to expand this offering over the next several years, transferring an additional \$2 to \$4 billion. During the year, RJBANK deployed \$1.3 billion of the increased deposits into loans. Purchased residential loan pools increased \$700 million and corporate loans increased \$600 million. This growth, combined with increased rates, generated an increase in net interest income of nearly \$18 million. Pretax income increased only \$1.8 million, due to the \$13.8 million provision for loan loss associated with the increase in loans outstanding. During periods of growth when new loans are originated or purchased, an allowance for loan losses is established for potential losses inherent in those new loans. Accordingly, a robust period of growth generally results in charges to earnings in that period, while the benefits of higher interest earnings are realized in later periods.

Year ended September 30, 2005 Compared with the Year ended September 24, 2004 - RJBank

Interest revenue and expense increased due to the combination of balance sheet growth and rising interest rates during the year. As a result, net interest income increased 32% to \$23 million for fiscal 2005 vs. \$17.5 million in fiscal 2004. The increase in loans receivable was predominantly in purchased residential mortgage loan pools, and therefore did not require significant increases in costs, with total non-interest expense actually declining 2%. This decrease is primarily the net impact of a decline in the provision for loan losses. The provision for loan losses is associated with the net increase in loans outstanding and the mix of such loans.

RJBank has become, and is expected to grow into, a more significant segment within the Company during the next several years. RJF contributed an additional \$80 million in equity capital to RJBank in fiscal 2005 allowing RJBank to begin to grow its asset base in preparation for offering an improved deposit alternative for certain brokerage accounts. The Company currently offers customers the option of sweeping their cash awaiting investment to the Heritage Cash Trust (the money market fund managed by Heritage Asset Management) or leaving the cash in the broker-dealer - in the Client Interest Program. The clients will receive an equivalent money market interest rate in the bank account and their accounts will have FDIC insurance.

**Results of Operations - Emerging Markets**

|                                   | For the Years Ended   |                    |  |                    |                       |
|-----------------------------------|-----------------------|--------------------|--|--------------------|-----------------------|
|                                   | September 30,<br>2006 | % Incr.<br>(Decr.) | September 30,<br>2005<br>(\$ in 000's) | % Incr.<br>(Decr.) | September 24,<br>2004 |
| <b>Revenues</b>                   |                       |                    |  |                    |                       |
| Securities commissions and fees   | \$ 38,370             | 31%                | \$ 29,309                              | 39%                | \$ 21,146             |
| Investment advisory fees          | 1,919                 | (34%)              | 2,890                                  | 45%                | 1,991                 |
| Interest income                   | 3,647                 | 90%                | 1,919                                  | 83%                | 1,048                 |
| Trading profits                   | 3,720                 | 18%                | 3,141                                  | 105%               | 1,530                 |
| Other                             | 7,607                 | 404%               | 1,509                                  | (23%)              | 1,960                 |
| <b>Total revenues</b>             | <b>55,263</b>         | <b>43%</b>         | <b>38,768</b>                          | <b>40%</b>         | <b>27,675</b>         |
| <b>Interest Expense</b>           | <b>1,467</b>          | <b>195%</b>        | <b>497</b>                             | <b>26%</b>         | <b>396</b>            |
| <b>Net revenues</b>               | <b>53,796</b>         | <b>41%</b>         | <b>38,271</b>                          | <b>40%</b>         | <b>27,279</b>         |
| <b>Non-interest expense</b>       |                       |                    |  |                    |                       |
| Compensation expense              | 29,185                | 48%                | 19,758                                 | 25%                | 15,798                |
| Other expense                     | 19,867                | 93%                | 10,294                                 | 96%                | 5,248                 |
| <b>Total non-interest expense</b> | <b>49,052</b>         | <b>63%</b>         | <b>30,052</b>                          | <b>43%</b>         | <b>21,046</b>         |
| <b>Minority interest</b>          | <b>1,887</b>          |                    | <b>2,292</b>                           |                    | <b>1,929</b>          |
| <b>Pretax earnings</b>            | <b>\$ 2,857</b>       | <b>(52%)</b>       | <b>\$ 5,927</b>                        | <b>38%</b>         | <b>\$ 4,304</b>       |

Year ended September 30, 2006 Compared with the Year ended September 30, 2005 - Emerging Markets

This segment consists of the results of the Company's joint ventures in India, Argentina, Uruguay and Turkey. Securities commissions increased \$9 million or 31% over the prior year. The vast majority of this increase was in the Company's joint venture in Turkey.

Other income includes investment banking revenues of \$2.7 million, primarily from a single large Latin American underwriting fee. Investment Advisory fees declined as the Company generated \$1 million less in asset management fees in India. The Company is negotiating the sale of its interest to its joint venture partners in India.

The \$20 million increase in expense is made up predominantly of a \$10 million increase in compensation related to increased revenues and increased other expense related to the accrual of an estimated tax liability in Turkey.

Year ended September 30, 2005 Compared with the Year ended September 24, 2004 - Emerging Markets

This segment consists of the results of the Company's joint ventures in India, Argentina, Turkey and Uruguay. Commission revenues increased by \$6.5 million in Turkey, while the related compensation expense increased \$3.7 million.

Results of Operations - Stock Loan/Borrow

|                                    | For the Years Ended   |                    |                       |                    |                       |
|------------------------------------|-----------------------|--------------------|-----------------------|--------------------|-----------------------|
|                                    | September 30,<br>2006 | % Incr.<br>(Decr.) | September 30,<br>2005 | % Incr.<br>(Decr.) | September 24,<br>2004 |
|                                    | (\$ in 000's)         |                    |                       |                    |                       |
| <b>Interest income and expense</b> |                       |                    |                       |                    |                       |
| Interest income                    | \$ 59,947             | 88%                | \$ 31,876             | 95%                | \$ 16,372             |
| Interest expense                   | 47,593                | 108%               | 22,873                | 84%                | 12,405                |
| <b>Net interest income</b>         | <u>12,354</u>         | <u>37%</u>         | <u>9,003</u>          | <u>127%</u>        | <u>3,967</u>          |
| <b>Expenses</b>                    | <u>4,353</u>          | <u>43%</u>         | <u>3,041</u>          | <u>66%</u>         | <u>1,832</u>          |
| <b>Pretax earnings</b>             | <u>\$ 8,001</u>       | <u>34%</u>         | <u>\$ 5,962</u>       | <u>179%</u>        | <u>\$ 2,135</u>       |

Year ended September 30, 2006 Compared with the Year ended September 30, 2005 - Stock Loan/Borrow

The Company's stock borrow balances averaged \$1,018,460 during fiscal year 2006 vs. \$1,129,560 in fiscal 2005. As the Company's stock loan business is predominantly a matched book business, stock loan balances were similar. Average spreads increased from 0.9% in fiscal 2005 to 2.0% in 2006 largely due to rising interest rates, resulting in a 37% increase in net interest income and a 34% increase in pre-tax profits.

Year ended September 30, 2005 Compared with the Year ended September 24, 2004 - Stock Loan/Borrow

The Company's stock borrow balances averaged \$1,129,560 during fiscal year 2005 vs. \$1,291,636 in fiscal 2004. As the Company's stock loan business is predominantly a matched book business, stock loan balances were similar. Average spreads increased from .4% in fiscal 2004 to .9% in 2005 largely due to rising interest rates, resulting in a 127% increase in net interest income. The business is well leveraged, resulting in a 179% increase in pre-tax profits.

Results of Operations - Other

The following table presents consolidated financial information for the Other segment for the years indicated:

|                               | For the Years Ended   |                    |                       |                    |                       |
|-------------------------------|-----------------------|--------------------|-----------------------|--------------------|-----------------------|
|                               | September 30,<br>2006 | % Incr.<br>(Decr.) | September 30,<br>2005 | % Incr.<br>(Decr.) | September 24,<br>2004 |
|                               | (\$ in 000's)         |                    |                       |                    |                       |
| <b>Revenues</b>               |                       |                    |                       |                    |                       |
| Interest income               | \$ 4,266              | (8%)               | \$ 4,638              | 13%                | \$ 4,088              |
| Other                         | 31,233                | 169%               | 11,622                | 423%               | 2,222                 |
| <b>Total revenues</b>         | <u>35,499</u>         | <u>118%</u>        | <u>16,260</u>         | <u>158%</u>        | <u>6,310</u>          |
| <b>Other expense</b>          | <u>15,129</u>         | <u>2%</u>          | <u>14,801</u>         | <u>43%</u>         | <u>10,359</u>         |
| <b>Pretax earnings (loss)</b> | <u>\$ 20,370</u>      | <u>1,296%</u>      | <u>\$ 1,459</u>       | <u>136%</u>        | <u>\$ (4,049)</u>     |

Year ended September 30, 2006 Compared with the Year ended September 30, 2005 - Other

Revenue in the Other segment includes the \$16.1 million pretax gain from the sale of the Company's NYSE and Montreal Exchange seats, the \$9.3 million in gains recognized from the Company's interests in various private equity partnerships and approximately \$3 million from other corporate investments.

The interest revenue in this segment represents the earnings on the portion of the Company's capital that is invested in interest-bearing instruments. The segment also includes the investment results from the private equity investments made at the corporate level, including 30 partnerships managed independently of Raymond James and two managed by Raymond James subsidiaries. Expenses are predominately executive incentive compensation expense, which increased due to improved corporate earnings.

#### **Statement of Financial Condition Analysis**

The Company's statement of financial condition consists primarily of cash and cash equivalents (a large portion of which are segregated for the benefit of customers), receivables and payables. The statement of financial condition is primarily liquid in nature, providing the Company with flexibility in financing its business. Total assets of \$11.5 billion at September 30, 2006 were up approximately 38% over September 30, 2005. Most of this increase is due to the significant increases in brokerage client cash deposits, leading to a similar increase in segregated cash balances on the asset side, and growth of RJBank, with the increased loan balances being largely funded by deposits. RJBank loan balances increased significantly as the Company continued to introduce an additional cash sweep offering to brokerage customers. The Company initiated the first phase of this option in July 2006 and plans to continue to expand the offering for the next few years, which will result in continued growth in RJBank balances. The other significant increase in assets was in securities purchased under agreements to resell. The broker-dealer gross assets and liabilities, including trading inventory, stock loan/stock borrow, receivables and payables from/to brokers, dealers and clearing organizations and clients fluctuate with the Company's business levels and overall market conditions.

#### **Liquidity and Capital Resources**

Cash used in operating activities during fiscal 2006 was approximately \$38.9 million, primarily attributable to the increase in segregated assets (directly correlated to the increase in brokerage client deposits), an increase in securities inventory levels, an increase in receivables from broker-dealers and clearing organizations, an increase in receivables from clients, and a decrease in payables due broker-dealers and clearing organizations. This was offset by an increase in payables due clients, an increase in payables associated with the Company's stock loan/borrowed business, and an increase in securities sold under agreements to repurchase.

Investing activities used \$2.0 billion in cash, which is primarily due to loans originated and purchased by RJBank, the purchases of available for sales securities, and purchases by RJBank of securities under agreements to resell. This was offset by RJBank's loan repayments and the maturation of available for sale securities.

Financing activities provided \$1.8 billion, the result of an increase in deposits at RJBank and cash provided from the exercise of stock options and employee stock purchases. This was partially offset by the repayments of borrowings, purchases of treasury stock and the payment of cash dividends.

At September 30, 2006 and September 30, 2005 the Company had loans payable of approximately \$141.6 million and \$146 million, respectively. The balance at September 30, 2006 is comprised primarily of a \$67.5 million loan for its home-office complex, a \$1.1 million mortgage loan for the office of a foreign joint venture, \$60 million in Federal Home Loan Bank advances (RJBank), and various short-term borrowings totaling approximately \$13 million.

In addition, the Company and its subsidiaries have the following lines of credit: RJF has a committed \$200 million line of credit, RJA has uncommitted bank lines of credit aggregating \$485.1 million with commercial banks, Raymond James Credit Corporation has a line of credit for \$25 million, and RJ Ltd. has a CDN\$40 million uncommitted line of credit. At September 30, 2006, the Company had approximately \$13 million in outstanding loans under these lines of credit. Additionally, RJBank had \$781 million in credit available from the FHLB at September 30, 2006. The Company's committed \$200 million line of credit is subject to a 0.125% per annum facility fee.

As of September 30, 2006, the Company's liabilities are comprised primarily of client payables of \$4.6 billion at the broker-dealer subsidiaries and deposits of \$2.8 billion at RJBank, as well as deposits held on stock loaned transactions of \$1.2 billion. The Company primarily acts as an intermediary in stock borrowed/loan transactions. As a result, the liability associated with the stock loan transactions is related to the \$1.1 billion receivable comprised of the Company's cash deposits for stock borrowed transactions. To meet its obligations to clients, the Company has approximately \$3.8 billion in cash and assets segregated pursuant to federal regulations. The Company also has client brokerage receivables of \$1.5 billion.

The Company will continue its implementation of a new cash sweep option to its clients through RJBank. This new cash sweep option will require substantial capital to be contributed to RJBank to meet regulatory requirements, and therefore may require the Company to infuse an estimated \$200 to \$300 million over the next several years for this purpose.

The Company has committed a total of \$42.6 million, in amounts ranging from \$200,000 to \$2.0 million, to 40 different independent venture capital or private equity partnerships. As of September 30, 2006, the Company had invested \$29.4 million of that amount and has received \$24.8 million in distributions. Additionally, the Company is the general partner in two internally sponsored private equity limited partnerships to which it has committed \$14 million. Of that amount, the Company had invested \$11.7 million and has received \$5.5 million in distributions as of September 30, 2006.

Management has been authorized by the Board of Directors to repurchase its common stock at their discretion for general corporate purposes. There is no formal stock repurchase plan at this time. In May 2004 the Board authorized the repurchase of up to \$75 million of shares. As of September 30, 2006 the unused portion of this authorization was \$67.6 million.

The Company has committed to lend to or guarantee obligations of its wholly owned subsidiary, RJ Tax Credit Funds, Inc. ("RJTCF"), of up to \$90 million upon request, subject to certain limitations as well as annual review and renewal. RJTCF borrows in order to invest in partnerships which purchase and develop properties qualifying for tax credits. These investments in project partnerships are then sold to various tax credit funds, which have third party investors, and for which RJTCF serves as the managing member or general partner. RJTCF typically sells these investments within 90 days of their acquisition, and the proceeds from the sales are used to repay RJTCF's borrowings. Additionally, RJTCF may make short-term loans or advances to project partnerships on behalf of the tax credit funds in which it serves as managing member or general partner. At September 30, 2006, cash funded to invest in either loans to or investments in project partnerships was \$28.6 million. In addition, at September 30, 2006, RJTCF is committed to additional future fundings of \$7.6 million related to project partnerships that have not yet been sold to various tax credit funds.

The Company believes its existing assets, which are highly liquid in nature, together with funds generated from operations should provide adequate funds for continuing operations.

The Company is the lessor in two leveraged commercial aircraft transactions with two major domestic airlines (Delta and Continental). The Company's ability to realize its expected return is dependent upon the airlines' ability to fulfill their lease obligations. In the event that the airlines default on their lease commitments and the Trustee for the debt holders is unable to re-lease or sell the planes with adequate terms, the Company would suffer a loss of some or all of its investment. Delta Airlines filed for bankruptcy protection on September 14, 2005. Accordingly, the Company recorded a \$6.5 million pretax charge in 2005 to fully reserve the balance of its investment in the leveraged lease of an aircraft to Delta. The Company also had taken a \$4 million pretax charge in 2004 to partially reserve for this investment. No amount of these charges represents a cash expenditure; however, in the likely event of a material modification to the lease or foreclosure of the aircraft by the debt holders in fiscal 2007, certain tax payments of up to approximately \$8.1 million could be accelerated. The expected tax payments are currently reflected on the statement of financial condition as a deferred tax liability and are not expected to result in a further charge to earnings. The Company also has a leveraged lease outstanding with Continental valued at \$10.9 million as of Sept. 30, 2006. Although Continental remains current on its lease payments to the Company, the inability of Continental to make its lease payments, or the termination or modification of the lease through a bankruptcy proceeding, could result in the write-down of the Company's investment and the acceleration of certain income tax payments. The Company is monitoring this lessee for specific events or circumstances that would increase the likelihood of a default on Continental's obligations under this lease given the difficult economic environment for the airline industry.

The Company's Turkish affiliate was assessed for the year 2001 approximately US\$6.8 million by the Turkish tax authorities. This affiliate is vigorously contesting most aspects of this assessment and has filed an appeal with the Turkish tax court. Audits of 2002 through 2004 are anticipated and their outcome is unknown in light of the change in methodology from the prior year's audit and the pending litigation. As of September 30, 2006, this affiliate had total capital of approximately US\$6.4 million, of which the Company owns approximately 73%.

The Company's broker-dealer subsidiaries are subject to requirements of the SEC and the IDA relating to liquidity and capital standards. The domestic broker-dealer subsidiaries of the Company are subject to the requirements of the Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934. RJA, a member firm of the NYSE, is also subject to the rules of the NYSE, whose requirements are substantially the same. Rule 15c3-1 requires that aggregate indebtedness, as defined, not to exceed 15 times net capital, as defined. Rule 15c3-1 also provides for an "alternative net capital requirement", which RJA, RJFS, and HFD have elected. It requires that minimum net capital, as defined, be equal to the greater of \$250,000 or two percent of Aggregate Debit Items arising from client transactions. The NYSE may require a member firm to reduce its business if its net capital is less than four percent of Aggregate Debit Items and may prohibit a member firm from expanding its business and declaring cash dividends if its net capital is less than five percent of Aggregate Debit Items. RJA, RJFS, and HFD had excess net capital as of September 30, 2006.

RJ Ltd. is subject to the Minimum Capital Rule (By-Law No. 17 of the IDA) and the Early Warning System (By-Law No. 30 of the IDA). The Minimum Capital Rule requires that every member shall have and maintain at all times Risk Adjusted Capital greater than zero calculated in accordance with Form 1 (Joint Regulatory Financial Questionnaire and Report) and with such requirements as the Board of Directors of the IDA may from time to time prescribe. Insufficient Risk Adjusted Capital may result in suspension from membership in the stock exchanges or the IDA. The Early Warning System is designed to provide advance warning that a member firm is encountering financial difficulties. This system imposes certain sanctions on members who are designated in Early Warning Level 1 or Level 2 according to its capital, profitability, liquidity position, frequency of designation or at the discretion of the IDA. Restrictions on business activities and capital transactions, early filing requirements, and mandated corrective measures are sanctions that may be imposed as part of the Early Warning System. RJ Ltd. was not in Early Warning Level 1 or Level 2 during fiscal 2006 or 2005.

RJBank is subject to various regulatory and capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, RJBank must meet specific capital guidelines that involve quantitative measures of RJBank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. RJBank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require RJBank to maintain minimum amounts and ratios of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes, as of September 30, 2006, that the Bank meets all capital adequacy requirements to which it is subject.

#### **Critical Accounting Policies**

The Company's financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the U.S. The following is a summary of the Company's critical accounting policies. For a full description of these and other accounting policies, see Note 1 of the Notes to the Consolidated Financial Statements. The Company believes that of its significant accounting policies, those described below involve a high degree of judgment and complexity. These critical accounting policies require estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. Due to their nature, estimates involve judgments based upon available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the consolidated financial statements. Therefore, understanding these policies is important in understanding the reported results of operations and the financial position of the Company.

## Valuation of Securities and Other Assets

“Trading securities” and “Available for sale securities” are reflected in the Consolidated Statement of Financial Condition at fair value or amounts that approximate fair value. In accordance with SFAS 115, “Accounting for Certain Investments in Debt and Equity Securities”, unrealized gains and losses related to these financial instruments are reflected in net earnings or other comprehensive income, depending on the underlying purpose of the instrument. The following table presents the Company’s trading and available for sale securities segregated into cash (i.e., non-derivative) trading instruments, derivative contracts, and available for sale securities:

| September 30, 2006            |   |   |
|-------------------------------|---|---|
|                               | Financial<br>Instruments Owned<br>at Fair Value | Financial<br>Instruments Sold<br>but not yet Purchased<br>at Fair Value |
|                               | (in 000's)                                      |   |
| Cash trading instruments      | \$ 464,867                                      | \$ 85,700   |
| Derivative contracts          | 20,904  | 8,309   |
| Available for sale securities | 280,580   | -   |
| Total                         | \$ 766,351                                      | \$ 94,009   |

### Cash Trading Instruments, Available for Sale Securities and Derivative Contracts

When available, the Company uses prices from independent sources such as listed market prices, or broker or dealer price quotations to derive the fair value of the instruments. For investments in illiquid, privately held or other securities that do not have readily determinable fair values, the Company uses estimated fair values as determined by management. Fair market value of OTC derivative contracts is estimated by using pricing models, based on the contractual terms and conditions, current market levels of interest rates and volatilities, and other factors. The following table presents the carrying value of cash trading instruments, available for sale securities, and derivative contracts for which fair value is measured based on quoted prices or other independent sources versus those for which fair value is determined by management:

| September 30, 2006  |  |  |
|---|--|--|
|   | Financial<br>Instruments Owned at Fair Value | Financial<br>Instruments Sold<br>but not yet Purchased at Fair Value |
|   | (in 000's)                                   |  |
| Fair value based on quoted prices and independent sources | \$ 745,314                                   | \$ 85,700  |
| Fair value determined by Management                       | 21,037                                       | 8,309  |
| Total   | \$ 766,351                                   | \$ 94,009  |

### Investment in Leveraged Leases

The Company is the lessor in two leveraged commercial aircraft transactions with two major domestic airlines (Delta and Continental). The Company's ability to realize its expected return is dependent upon the airlines' ability to fulfill their lease obligations. In the event that the airlines default on their lease commitments and the Trustee for the debt holders is unable to re-lease or sell the planes with adequate terms, the Company would suffer a loss of some or all of its investment. Delta Airlines filed for bankruptcy protection on September 14, 2005. Accordingly, the Company recorded a \$6.5 million pretax charge in 2005 to fully reserve the balance of its investment in the leveraged lease of an aircraft to Delta. The Company also had taken a \$4 million pretax charge in 2004 to partially reserve for this investment. No amount of these charges represents a cash expenditure; however, in the likely event of a material modification to the lease or foreclosure of the aircraft by the debt holders in fiscal 2007, certain tax payments of up to approximately \$8.1 million could be accelerated. The expected tax payments are currently reflected on the statement of financial condition as a deferred tax liability and are not expected to result in a further charge to earnings.

The Company also has a leveraged lease outstanding with Continental valued at \$10.9 million as of Sept. 30, 2006. The Company's equity investment represented 20% of the aggregate purchase price; the remaining 80% was funded by public debt issued in the form of equipment trust certificates. The residual value of the aircraft at the end of the lease term of approximately 17 years is projected to be 15% of the original cost. This lease expires in May 2014.

Although Continental remains current on its lease payments to the Company, the inability of Continental to make its lease payments, or the termination or modification of the lease through a bankruptcy proceeding, could result in the write-down of the Company's investment and the acceleration of certain income tax payments. The Company is monitoring this lessee for specific events or circumstances that would increase the likelihood of a default on Continental's obligations under this lease given the difficult economic environment for the airline industry.

#### **Goodwill**

Goodwill is related to the acquisitions of Roney & Co. (now part of RJA) and Goepel McDermid, Inc. (now called Raymond James Ltd.). This goodwill, totaling \$63 million, was allocated to the reporting units within the Private Client Group and Capital Markets segments pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets". Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In accordance with SFAS No. 142, indefinite-life intangible assets and goodwill are not amortized. Rather they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment.

When available, the Company uses recent, comparable transactions to estimate the fair value of the respective reporting units. The Company calculates an estimated fair value based on multiples of revenues, earnings, and book value of comparable transactions. However, when such comparable transactions are not available or have become outdated, the Company uses discounted cash flow scenarios to estimate the fair value of the reporting units. As of September 30, 2006, goodwill had been allocated to the Private Client Group of RJA, and both the Private Client Group and Capital Markets segments of RJ Ltd. As of the most recent impairment test, the Company determined that the carrying value of the goodwill for each reporting unit had not been impaired. However, changes in current circumstances or business conditions could result in an impairment of goodwill. As required, the Company will continue to perform impairment testing on an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

#### **Reserves**

The Company recognizes liabilities for contingencies when there is an exposure that, when fully analyzed, indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. When a range of probable loss can be estimated, the Company accrues the most likely amount; if not determinable, the Company accrues at least the minimum of the range of probable loss.

The Company records reserves related to legal proceedings in "other payables". Such reserves are established and maintained in accordance with SFAS No. 5, "Accounting for Contingencies", and Financial Interpretation No. 14. The determination of these reserve amounts requires significant judgment on the part of management. Management considers many factors including, but not limited to: the amount of the claim; the amount of the loss in the client's account; the basis and validity of the claim; the possibility of wrongdoing on the part of an employee of the Company; previous results in similar cases; and legal precedents and case law. Each legal proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Lastly, each case is reviewed to determine if it is probable that insurance coverage will apply, in which case the reserve is reduced accordingly. Any change in the reserve amount is recorded in the consolidated financial statements and is recognized as a charge/credit to earnings in that period.

The Company also records reserves or allowances for doubtful accounts related to client receivables and loans. Client receivables at the broker-dealers are generally collateralized by securities owned by the brokerage clients. Therefore, when a receivable is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations.

Client loans at RJBANK are generally collateralized by real estate or other property. RJBANK provides for both an allowance for losses in accordance with SFAS No. 5, "Accounting for Contingencies", and a reserve for individually impaired loans in accordance with SFAS No. 114, "Accounting by a Creditor for Impairment of a Loan". The calculation of the SFAS No. 5 allowance is subjective as management segregates the loan portfolio into different homogeneous classes and assigns each class an allowance percentage based on the perceived risk associated with that class of loans. During the fiscal year, RJBANK re-evaluated and implemented changes to the loan loss reserve methodology in conjunction with a revision to the corporate loan grading process. The new loan grading process was revised and expanded to provide more specific and detailed risk measurement across the corporate loan portfolio. The factors taken into consideration when assigning the reserve percentage to each reserve category include estimates of borrower default probabilities and collateral values; trends in delinquencies; volume and terms; changes in geographic distribution, lending policies, local, regional, and national economic conditions; concentrations of credit risk and past loss history. In addition, the Company provides for potential losses inherent in RJBANK's unfunded lending commitments using the criteria above, further adjusted for an estimated probability of funding. For individual loans identified as impaired, RJBANK measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. At September 30, 2006, the amortized cost of all RJBANK loans was \$2.3 billion and an allowance for loan losses of \$18.7 million was recorded against that balance. The total allowance for loan losses, including \$4 million in reserves for off-balance sheet exposures maintained in Other Liabilities, is equal to 1% of the amortized cost of the loan portfolio.

The Company also makes loans or pays advances to Financial Advisors, primarily for recruiting and retention purposes. The Company provides for an allowance for doubtful accounts based on an evaluation of the Company's ability to collect such receivables. The Company's ongoing evaluation includes the review of specific accounts of Financial Advisors no longer associated with the Company and the Company's historical collection experience. At September 30, 2006 the receivable from Financial Advisors was \$89.8 million, which is net of an allowance of \$3.3 million for estimated uncollectibility.

### **Income Taxes**

SFAS No. 109, "Accounting for Income Taxes", establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Variations in the actual outcome of these future tax consequences could materially impact the Company's financial position, results of operations, or cash flows.

### **Effects of recently issued accounting standards, not yet adopted**

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which replaces APB No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Changes in Interim Financial Statements". The Statement changes the accounting for, and reporting of, a change in accounting principle. Statement 154 requires retrospective application to prior period's financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. Statement 154 is effective for accounting changes and corrections of errors beginning in the Company's fiscal year 2007. The Company is currently evaluating the impact on its financial reporting process of the adoption of SFAS 154.

In June 2005, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") in Issue 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" on the guidance on how general partners in a limited partnership should determine whether they control a limited partnership. This consensus is effective for general partners of all new limited partnerships formed, and for existing limited partnerships for which the partnership agreements are modified, subsequent to the date of the ratification of this consensus (June 29, 2005). The guidance in this issue is effective for general partners in all other limited partnerships no later than the beginning of the Company's fiscal year 2007. The Company adopted this EITF for partnerships created or modified after June 29, 2005, the impact of which was not material to its consolidated financial statements. The Company anticipates consolidating two additional partnerships, which were created prior to June 29, 2005, during the first quarter of fiscal year 2007. As of September 30, 2006, these partnerships had assets of approximately \$44.3 million.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments." SFAS No. 155 is an amendment of SFAS No. 133 and SFAS No. 140. SFAS No. 155 permits companies to elect, on an instrument by instrument basis, to apply a fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect SFAS No. 155 to have a material impact on the consolidated financial statements of the Company.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets." SFAS No. 156 amends SFAS No. 140. SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value. For subsequent measurements, SFAS No. 156 permits companies to choose between using an amortization method or a fair value measurement method for reporting purposes. SFAS No. 156 is effective as of the beginning of a company's first fiscal year that begins after September 15, 2006. The Company does not expect SFAS No. 156 to have a material impact on the consolidated financial statements of the Company.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 establishes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact the adoption of this interpretation will have on its consolidated financial statements.

In July 2006, the FASB issued Staff Position No. FAS 13-2, "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction ("FSP FAS 13-2"). This FASB Staff Position addresses how a change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction affects the accounting by a lessor for that lease. FSP FAS 13-2 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact the adoption of this staff position will have on its consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements" ("SAB 108"). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires an entity to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. The guidance is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the impact this guidance will have on its financial reporting process.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair-value measurements required under other accounting pronouncements but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS No. 157 is effective as of the beginning of a company's first fiscal year that begins after November 17, 2007. The Company does not expect SFAS No. 157 to have a material impact on the consolidated financial statements of the Company.

#### **Off Balance Sheet Arrangements**

Information concerning the Company's off balance sheet arrangements are included in Note 20 of the Notes to the Consolidated Financial Statements. Such information is hereby incorporated by reference.

## Contractual Obligations

The Company has contractual obligations to make future payments in connection with its short and long-term debt, non-cancelable lease agreements, partnership investments, commitments to extend credit, and a naming rights agreement (see Note 13 to the Consolidated Financial Statements for further information on the Company's commitments). The following table sets forth these contractual obligations by fiscal year (in 000's):

|  | <b>Total</b>       | <b>2007</b>        | <b>2008</b>     | <b>2009</b>     | <b>2010</b>     | <b>2011</b>     | <b>Thereafter</b> |
|--|--------------------|--------------------|-----------------|-----------------|-----------------|-----------------|-------------------|
| Long-term debt   | \$128,598          | \$2,746            | \$7,911         | \$3,086         | \$8,272         | \$43,469        | \$63,114          |
| Variable interest entities' loans payable <sup>(1)</sup> | 193,647            | 32,787             | 13,158          | 17,984          | 17,529          | 22,394          | 89,795            |
| Short-term debt  | 13,040             | 13,040             | -               | -               | -               | -               | -                 |
| Operating leases   | 101,766            | 26,013             | 21,858          | 16,860          | 14,378          | 8,938           | 13,719            |
| Investments - private equity partnerships <sup>(2)</sup> | 20,100             | 20,100             | -               | -               | -               | -               | -                 |
| Certificates of deposit                                  | 255,360            | 125,622            | 50,427          | 36,306          | 24,885          | 18,120          | -                 |
| Commitments to extend credit - RJBank <sup>(3)</sup>     | 1,112,293          | 1,112,293          | -               | -               | -               | -               | -                 |
| Commitments to real estate partnerships <sup>(4)</sup>   | 7,600              | 7,600              | -               | -               | -               | -               | -                 |
| CSS commitment   | 425                | 425                | -               | -               | -               | -               | -                 |
| Naming rights for Raymond James Stadium                  | 33,120             | 3,031              | 3,152           | 3,278           | 3,409           | 3,545           | 16,705            |
| <b>Total</b>   | <b>\$1,865,949</b> | <b>\$1,343,657</b> | <b>\$96,506</b> | <b>\$77,514</b> | <b>\$68,473</b> | <b>\$96,466</b> | <b>\$183,333</b>  |

- (1) Loans which are non-recourse to the Company. See Notes 6 and 10 in the Notes to the Consolidated Financial Statements for additional information.
- (2) The Company has committed a total of \$42.6 million, in amounts ranging from \$200,000 to \$2.0 million, to 40 different independent venture capital or private equity partnerships. As of September 30, 2006, the Company had invested \$29.4 million of that amount and has received \$24.8 million in distributions. Additionally, the Company is the general partner in two internally sponsored private equity limited partnerships to which it has committed \$14 million. Of that amount, the Company had invested \$11.7 million and has received \$5.5 million in distributions as of September 30, 2006. Although the combined remaining balance of \$20.1 million has been included in fiscal year 2007 above, the contributions to the partnerships may occur after that time and are dependent upon the timing of the capital calls by the general partners.
- (3) Because many commitments expire without being funded in whole or part, the contract amounts are not estimates of future cash flows.
- (4) RJTCF is committed to additional future fundings related to real estate partnerships.

## Effects of Inflation

The Company's assets are primarily liquid in nature and are not significantly affected by inflation. Management believes that the changes in replacement cost of property and equipment are adequately insured and therefore would not materially affect operating results. However, the rate of inflation affects the Company's expenses, including employee compensation, communications and occupancy, which may not be readily recoverable through charges for services provided by the Company.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**RISK MANAGEMENT**

Risks are an inherent part of the Company's business and activities. Management of these risks is critical to the Company's fiscal soundness and profitability. Risk management at the Company is a multi-faceted process that requires communication, judgment and knowledge of financial products and markets. The Company's senior management takes an active role in the risk management process and requires specific administrative and business functions to assist in the identification, assessment, monitoring and control of various risks. The principal risks involved in the Company's business activities are market, credit, operational, and regulatory and legal.

**Market Risk**

Market risk is the risk of loss to the Company resulting from changes in interest rates and equity prices. The Company has exposure to market risk primarily through its broker-dealer and banking operations. The Company's broker-dealer subsidiaries, primarily RJA, trade tax exempt and taxable debt obligations and act as an active market maker in approximately 330 over-the-counter equity securities. In connection with these activities, the Company maintains inventories in order to ensure availability of securities and to facilitate client transactions. Additionally, the Company, primarily within its Canadian broker-dealer subsidiary, invests for its own proprietary equity investment account.

The following table represents the fair value of trading inventories associated with the Company's broker-dealer client facilitation, market-making activities and proprietary trading activities.

|                       | September 30, 2006 |                                       | September 30, 2005 |                                       |
|-----------------------|--------------------|---------------------------------------|--------------------|---------------------------------------|
|                       | Trading Securities | Securities Sold but Not yet Purchased | Trading Securities | Securities Sold but Not yet Purchased |
|                       | (in 000's)         |                                       |                    |                                       |
| Marketable:           |                    |                                       |                    |                                       |
| Municipal             | \$ 192,028         | \$ 5                                  | \$ 177,984         | \$ 17                                 |
| Corporate             | 134,431            | 968                                   | 27,830             | 2,285                                 |
| Government            | 37,793             | 31,636                                | 42,009             | 99,465                                |
| Agency                | 68,380             | 34,023                                | 60,445             | 84                                    |
| Total debt securities | 432,632            | 66,632                                | 308,268            | 101,851                               |
| Derivative contracts  | 20,904             | 8,309                                 | 12,795             | 2,488                                 |
| Equity securities     | 29,532             | 19,068                                | 32,237             | 30,256                                |
| Other securities      | 2,703              | -                                     | 6,379              | -                                     |
| Total                 | \$485,771          | \$94,009                              | \$359,679          | \$134,595                             |

Changes in value of the Company's trading inventory may result from fluctuations in interest rates, credit ratings of the issuer, equity prices and the correlation among these factors. The Company manages its trading inventory by product type and has established trading divisions that have responsibility for each product type. The Company's primary method of controlling risk in its trading inventory is through the establishment and monitoring of limits on the dollar amount of securities positions that can be entered into and other risk-based limits; limits are established both for categories of securities (e.g., OTC equities, high yield securities, municipal bonds) and for individual traders. As of September 30, 2006 the absolute fixed income and equity inventory limits were \$1,905,000,000 and \$80,705,000, respectively. The Company's trading activities were well within these limits at September 30, 2006. Position limits in trading inventory accounts are monitored on a daily basis. Consolidated position and exposure reports are prepared and distributed to senior management. Limit violations are carefully monitored. Management also monitors inventory levels and trading results, as well as inventory aging, pricing, concentration and securities ratings. For derivatives, primarily interest rate swaps, the Company monitors exposure in its derivatives subsidiary daily based on established limits with respect to a number of factors, including interest rate risk, spread, ratio and basis risk and volatility. These exposures are monitored both on a total portfolio basis and separately for selected maturity periods.

## Interest Rate Risk

The Company is exposed to interest rate risk as a result of maintaining trading inventories of fixed income instruments and actively manages this risk using hedging techniques that involve swaps, futures, and U.S. Treasury obligations. The Company monitors, on a daily basis, the Value-at-Risk ("VaR") in its institutional Fixed Income trading portfolios (cash instruments and interest rate derivatives). VaR is an appropriate statistical technique for estimating the potential loss in trading portfolios due to typical adverse market movements over a specified time horizon with a suitable confidence level.

To calculate VaR, the Company uses historical simulation. This approach assumes that historical changes in market conditions are representative of future changes. The simulation is based upon daily market data for the previous twelve months. VaR is reported at a 99% confidence level, based on a one-day time horizon. This means that the Company could expect to incur losses greater than those predicted by the VaR estimates only once in every 100 trading days, or about 2.5 times a year. During the fiscal year ended September 30 2006, the reported daily loss in the institutional Fixed Income trading portfolio twice exceeded the predicted VaR. This is consistent with the model and its business-as-usual assumptions.

However, trading losses on a single day could exceed the reported VaR by significant amounts in unusually volatile markets and might accumulate over a longer time horizon, such as a number of consecutive trading days. Accordingly, management employs additional interest rate risk controls including position limits, a daily review of trading results, review of the status of aged inventory, independent controls on pricing, monitoring of concentration risk, and by issuer ratings.

The following tables set forth the high, low, and daily average VaR for the Company's overall institutional portfolio during the twelve months ended September 30, 2006, with the corresponding dollar value of the Company's portfolio.

| (\$ in 000's)                          | Twelve months ended September 30, 2006 |           |               | VaR at             |                    |
|--|--|-----------|---------------|--------------------|--------------------|
|  | High                                   | Low       | Daily Average | September 30, 2006 | September 30, 2005 |
| Daily VaR                              | \$1,251                                | \$312     | \$729         | \$483              | \$532              |
| Related Portfolio Value (net)*         | \$303,377                              | \$177,669 | \$308,379     | \$312,917          | \$169,978          |
| VaR as a percent<br>of Portfolio Value | 0.41%                                  | 0.18%     | 0.24%         | 0.15%              | 0.31%              |

\* Portfolio value achieved on the day of the VAR calculation.

The modeling of the risk characteristics of trading positions involves a number of assumptions and approximations. While management believes that its assumptions and approximations are reasonable, there is no uniform industry methodology for estimating VaR, and different assumptions or approximations could produce materially different VaR estimates. As a result, VaR statistics are more reliable when used as indicators of risk levels and trends within a firm than as a basis for inferring differences in risk-taking across firms.

Additional information is discussed under Derivative Financial Instruments in Note 11 of the Notes to the Consolidated Financial Statements.

RJBank maintains an earning asset portfolio that is comprised of mortgage, corporate and consumer loans, as well as mortgage-backed securities, securities purchased under resale agreements, and other investments. Those earning assets are funded in part by its obligations to clients, including demand deposits, money market accounts, savings accounts, and certificates of deposit; and FHLB advances. Based on the current earning asset portfolio of RJBank, market risk for RJBank is limited primarily to interest rate risk. RJBank analyzes interest rate risk based on forecasted net interest income, which is the net amount of interest received and interest paid, and the net portfolio valuation, both in a range of interest rate scenarios. The following table represents the carrying value of RJBank's assets and liabilities that are subject to market risk. This table does not include financial instruments with limited market risk exposure due to offsetting asset and liability positions, short holding periods or short periods of time until the interest rate resets.

**RJBank Financial Instruments with Market Risk (as described above, in 000's):**

|                                    | <u>September 30, 2006</u> | <u>September 30, 2005</u> |
|------------------------------------|---------------------------|---------------------------|
| Mortgage-backed securities         | \$ 151,437                | \$ 6,716                  |
| Municipal obligations              | -                         | 5                         |
| Loans receivable, net              | 1,282,504                 | 648,649                   |
| Total assets with market risk      | <u>\$ 1,433,941</u>       | <u>\$ 655,370</u>         |
|                                    |                           |                           |
| Certificates of deposit            | \$ 255,360                | \$ 220,660                |
| Federal Home Loan Bank advances    | 60,000                    | 70,000                    |
| Interest rate swaps                | -                         | 72                        |
| Total liabilities with market risk | <u>\$ 315,360</u>         | <u>\$ 290,732</u>         |

As noted above, RJBank reviews interest rate risk based on net interest income and impact on RJBank's equity. One of the core objectives of RJBank's Asset/Liability Management Committee is to manage the sensitivity of net interest income to changes in market interest rates. The Asset/Liability Management Committee uses several measures to monitor and limit RJBank's interest rate risk including scenario analysis, interest repricing gap analysis and limits, and net portfolio value limits. Model-based scenario analysis is used to monitor and report the interest rate risk positions, and analyze alternative strategies.

Net interest income is the net amount of interest received less interest paid. This involves large volumes of contracts and transactions, and numerous different products. Simulation models and estimation techniques are used to assess the sensitivity of the net interest income stream to movements in interest rates. Assumptions about consumer behavior play an important role in these calculations; this is particularly relevant for loans such as mortgages where the client has the right, but not the obligation, to repay before the scheduled maturity. On the liability side, the re-pricing characteristics of deposits are based on estimates since the rates are not coupled to a specified market rate.

The sensitivity of net interest income to interest rate conditions is estimated for a variety of scenarios. Assuming an immediate and lasting shift of 100 basis points in the term structure of interest rates, RJBank's sensitivity analysis indicates that an upward movement would decrease RJBank's net interest income by 13.82% in the first year after the rate jump, whereas a downward shift of the same magnitude would increase RJBank's net interest income by 9.20%. These sensitivity figures are based on positions as of September 30, 2006, and are subject to certain simplifying assumptions, including that management takes no corrective action.

**Equity Price Risk**

The Company is exposed to equity price risk as a consequence of making markets in equity securities and the investment activities of RJA and RJ Ltd. The U.S. broker-dealer activities are client-driven, with the objective of meeting clients' needs while earning a trading profit to compensate for the risk associated with carrying inventory. The Company attempts to reduce the risk of loss inherent in its inventory of equity securities by monitoring those security positions constantly throughout each day and establishing position limits. The Company's Canadian broker-dealer has a proprietary trading business with 27 traders. The average aggregate inventory held for proprietary trading during the year ended September 30, 2006 was CDN\$7,111,436.

**Credit Risk**

The Company is engaged in various trading and brokerage activities whose counterparties primarily include broker-dealers, banks and other financial institutions. The Company is exposed to risk that counterparties may not fulfill their obligations. The risk of default depends on the creditworthiness of the counterparty and/or the issuer of the instrument. The Company manages this risk by imposing and monitoring individual and aggregate position limits within each business segment for each counterparty, conducting regular credit reviews of financial counterparties, reviewing security and loan concentrations, holding and marking to market collateral on certain transactions and conducting business through clearing organizations, which guarantee performance.

The Company's client activities involve the execution, settlement, and financing of various transactions on behalf of its clients. Client activities are transacted on either a cash or margin basis. Credit exposure associated with the Company's Private Client Group consists primarily of customer margin accounts, which are monitored daily and are collateralized. When clients execute a purchase the Company is at some risk that the client will renege on the trade. If this occurs, the Company may have to liquidate the position at a loss. However, for most of the private client group purchase transactions, clients have available funds in the account before the trade is executed. The Company monitors exposure to industry sectors and individual securities and performs analysis on a regular basis in connection with its margin lending activities. The Company adjusts its margin requirements if it believes its risk exposure is not appropriate based on market conditions.

In addition, RJBANK offers a variety of loan products including residential mortgage, commercial real estate, and consumer loans, which are collateralized, and corporate loans for which the borrower is carefully evaluated and monitored. RJBANK's policy is to require customers to provide such collateral prior to the disbursement of approved loans. The amount of collateral obtained, if it is deemed necessary by RJBANK upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, residential real estate, and income-producing commercial properties. When using derivative financial instruments to hedge exposures to changes in interest rates, RJBANK exposes itself to credit risk with those counterparties also. RJBANK minimizes the credit or repayment risk of derivative instruments by entering into transactions only with high-quality counterparties whose credit rating is investment grade.

As of September 30, 2006, RJBANK has entered into a \$460 million reverse repurchase agreement with a single counterparty. Although RJBANK is exposed to risk that this counterparty may not fulfill its contractual obligation, the risk of default is minimal due to the creditworthiness of the counterparty, collateral received and the short duration of this agreement.

The Company is subject to concentration risk if it holds large positions, extends large loans to, or has large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (e.g. in the same industry). Securities purchased under agreements to resell consist entirely of securities issued by the U.S. government or its agencies. Receivables from and payables to clients and stock borrow and lending activities are conducted with a large number of clients and counterparties and potential concentration is carefully monitored. Inventory and investment positions taken and commitments made, including underwritings, may involve exposure to individual issuers and businesses. The Company seeks to limit this risk through careful review of the underlying business and the use of limits established by senior management, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment and other positions or commitments outstanding.

The Company is the lessor in two leveraged commercial aircraft transactions with two major domestic airlines (Delta and Continental). The Company's ability to realize its expected return is dependent upon the airlines' ability to fulfill their lease obligations. In the event that the airlines default on their lease commitments and the Trustee for the debt holders is unable to re-lease or sell the planes with adequate terms, the Company would suffer a loss of some or all of its investment. Delta Airlines filed for bankruptcy protection on September 14, 2005. Accordingly, the Company recorded a \$6.5 million pretax charge in 2005 to fully reserve the balance of its investment in the leveraged lease of an aircraft to Delta. The Company also had taken a \$4 million pretax charge in 2004 to partially reserve for this investment. Although Continental remains current on its lease payments to the Company, the Company is monitoring this lessee for specific events or circumstances that would increase the likelihood of a default on Continental's obligations under this lease given the difficult economic environment for the airline industry.

#### **Operational Risk**

Operational risk generally refers to the risk of loss resulting from the Company's operations, including, but not limited to, business disruptions, improper or unauthorized execution and processing of transactions, deficiencies in the Company's technology or financial operating systems and inadequacies or breaches in the Company's control processes. The Company operates different businesses in diverse markets and is reliant on the ability of its employees and systems to process a large number of transactions. These risks are less direct than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In the event of a breakdown or improper operation of systems or improper action by employees, the Company could suffer financial loss, regulatory sanctions and damage to its reputation. In order to mitigate and control operational risk, the Company has developed and continues to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout the organization and within such departments as Accounting, Operations, Information Technology, Legal, Compliance and Internal Audit. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that the Company's various businesses are operating within established corporate policies and limits. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate.

A Compliance and Standards Committee comprised of senior executives meets monthly to consider policy issues. The Committee reviews material customer complaints and litigation, as well as issues in operating departments, for the purpose of identifying issues that present risk exposure to customers or to the Company. The Committee adopts policies to deal with these issues, which are then disseminated throughout the Company.

The Company has established a Quality of Markets Committee that meets regularly to monitor the best execution activities of the trading departments within the Company as they relate to customer orders. This Committee is comprised of representatives from the OTC Trading, Listed Trading, Options, Compliance and Legal Departments and is under the direction of a senior officer of the Company. This Committee reviews reports from OTC Trading, Listed Trading and Options departments and recommends action for improvement when necessary.

#### **Regulatory and Legal Risk**

Legal risk includes the risk of Private Client Group customer claims, the possibility of sizable adverse legal judgments and non-compliance with applicable legal and regulatory requirements. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts business. Regulatory oversight of the securities industry has become increasingly demanding over the past several years and the Company, as well as others in the industry, has been directly affected by this increased regulatory scrutiny.

The Company has comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, extension of credit, collection activities, money-laundering and record keeping. The Company and its subsidiaries have designated Anti-money Laundering Compliance Officers who monitor compliance with regulations adopted under the U.S.A. Patriot Act. The Company acts as an underwriter or selling group member in both equity and fixed income product offerings. Particularly when acting as lead or co-lead manager, the Company has financial and legal exposure. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence investigation.

The Company's major business units have compliance departments that are responsible for regularly reviewing and revising compliance and supervisory procedures to conform to changes in applicable regulations.

During the past year, the number of claims has continued to decline to more historic levels. While these claims may not be the result of any wrongdoing, the Company does, at a minimum, incur costs associated with investigating and defending against such claims. See further discussion on the Company's reserve policy under "Critical Accounting Policies"; see also "Legal Proceedings" and "Regulation".

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Raymond James Financial, Inc.:

We have audited the accompanying consolidated statements of financial condition of Raymond James Financial, Inc. and subsidiaries as of September 30, 2006 and 2005, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Raymond James Financial, Inc. and subsidiaries as of September 30, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Raymond James Financial, Inc.'s internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*, and our report dated December 14, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Tampa, Florida  
December 14, 2006  
Certified Public Accountants

**RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

|  | September 30,<br>2006 | September 30,<br>2005 |
|--|-----------------------|-----------------------|
|  | (in thousands)        |                       |
| <b>Assets:</b>   |                       |                       |
| Cash and cash equivalents  | \$ 641,691            | \$ 881,133            |
| Assets segregated pursuant to federal regulations  | 3,189,900             | 2,351,805             |
| Securities purchased under agreements to resell  | 776,863               | 117,616               |
| Securities owned:  |                       |                       |
| Trading securities, at fair value  | 485,771               | 359,679               |
| Available for sale securities, at fair value   | 280,580               | 187,549               |
| Other investments  | 66,726                | -                     |
| Receivables:   |                       |                       |
| Brokerage clients, net   | 1,504,607             | 1,426,096             |
| Stock borrowed   | 1,068,102             | 1,079,849             |
| Bank loans, net  | 2,262,832             | 1,000,281             |
| Brokers-dealers and clearing organizations   | 210,443               | 110,760               |
| Other  | 290,294               | 241,527               |
| Investments in real estate partnerships- held by variable interest entities  | 227,963               | 138,228               |
| Property and equipment, net  | 142,780               | 137,555               |
| Deferred income taxes, net   | 94,957                | 88,860                |
| Deposits with clearing organizations   | 30,780                | 31,286                |
| Goodwill   | 62,575                | 62,575                |
| Investment in leveraged leases, net  | 10,882                | 11,808                |
| Prepaid expenses and other assets  | 168,904               | 142,649               |
|  | <b>\$11,516,650</b>   | <b>\$8,369,256</b>    |
| <b>Liabilities and Shareholders' Equity:</b>   |                       |                       |
| Loans payable  | \$ 141,638            | \$ 146,462            |
| Loans payable related to investments by variable interest entities in real estate partnerships   | 193,647               | 144,780               |
| Payables:  |                       |                       |
| Brokerage clients  | 4,552,227             | 3,767,535             |
| Stock loaned   | 1,235,104             | 1,115,595             |
| Bank deposits  | 2,806,880             | 1,076,020             |
| Brokers-dealers and clearing organizations   | 79,646                | 146,269               |
| Trade and other  | 138,091               | 140,360               |
| Trading securities sold but not yet purchased, at fair value   | 94,009                | 134,595               |
| Securities sold under agreements to repurchase   | 301,110               | 33,681                |
| Accrued compensation, commissions and benefits   | 321,224               | 299,657               |
| Income taxes payable   | 34,294                | 31,448                |
|  | <b>9,897,870</b>      | <b>7,036,402</b>      |
| Minority Interests   | 154,911               | 91,031                |
| Shareholders' equity*  |                       |                       |
| Preferred stock; \$.10 par value; authorized<br>10,000,000 shares; issued and outstanding -0- shares                                       | -                     | -                     |
| Common Stock; \$.01 par value; authorized<br>180,000,000 shares; issued 117,655,883 at<br>Sept. 30, 2006 and 114,850,634 at Sept. 30, 2005 | 1,150                 | 765                   |
| Shares exchangeable into common stock; 362,197<br>at Sept. 30, 2006 and 427,988 at Sept. 30, 2005  | 4,649                 | 5,493                 |
| Additional paid-in capital   | 205,198               | 165,074               |
| Retained earnings  | 1,258,446             | 1,082,063             |
| Accumulated other comprehensive income   | 12,095                | 9,632                 |
|  | 1,481,538             | 1,263,027             |
| Less: 1,270,015 and 1,884,422 common shares<br>in treasury, at cost  | 17,669                | 21,204                |
|  | <b>1,463,869</b>      | <b>1,241,823</b>      |
|  | <b>\$11,516,650</b>   | <b>\$8,369,256</b>    |

\* All share amounts have been adjusted for the March 22, 2006 3-for-2 stock split.  
See accompanying Notes to Consolidated Financial Statements.

**RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(in thousands, except per share amounts)

|  | Year Ended            |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
| <b>Revenues:</b>   |                       |                       |                       |
| Securities commissions and fees  | \$ 1,561,504          | \$ 1,421,908          | \$ 1,290,344          |
| Investment banking   | 158,598               | 150,166               | 106,350               |
| Investment advisory fees   | 179,366               | 157,428               | 134,447               |
| Interest   | 469,981               | 245,562               | 134,764               |
| Net trading profits  | 27,156                | 24,612                | 23,565                |
| Financial service fees   | 115,990               | 86,014                | 80,431                |
| Other  | 120,162               | 71,307                | 59,875                |
| <b>Total revenues</b>  | <b>2,632,757</b>      | <b>2,156,997</b>      | <b>1,829,776</b>      |
| Interest expense   | 296,670               | 117,789               | 48,517                |
| <b>Net revenues</b>  | <b>2,336,087</b>      | <b>2,039,208</b>      | <b>1,781,259</b>      |
| <b>Non-Interest Expenses:</b>  |                       |                       |                       |
| Compensation, commissions and benefits   | 1,601,037             | 1,429,104             | 1,273,420             |
| Communications and information processing  | 103,576               | 91,881                | 82,186                |
| Occupancy and equipment costs  | 72,593                | 66,948                | 61,339                |
| Clearance and floor brokerage  | 28,329                | 24,063                | 20,773                |
| Business development   | 78,579                | 67,802                | 59,963                |
| Other  | 118,066               | 113,957               | 77,347                |
| <b>Total non-interest expenses</b>   | <b>2,002,180</b>      | <b>1,793,755</b>      | <b>1,575,028</b>      |
| Minority Interest  | (8,159)               | (2,518)               | 2,110                 |
| <b>Income before provision for income taxes</b>  | <b>342,066</b>        | <b>247,971</b>        | <b>204,121</b>        |
| Provision for income taxes   | 127,724               | 96,925                | 76,546                |
| <b>Net income</b>  | <b>\$ 214,342</b>     | <b>\$ 151,046</b>     | <b>\$ 127,575</b>     |
| Net income per share-basic   | \$ 1.90               | \$ 1.37               | \$ 1.16               |
| Net income per share-diluted   | \$ 1.85               | \$ 1.33               | \$ 1.14               |
| Weighted average common shares outstanding-basic*  | 112,614               | 110,217               | 110,093               |
| Weighted average common and common equivalent shares outstanding-diluted*                | 115,738               | 113,048               | 111,603               |
| Cash dividend per common share*  | \$ 0.32               | \$ 0.21               | \$ 0.17               |
| <b>Net income</b>  | <b>\$ 214,342</b>     | <b>\$ 151,046</b>     | <b>\$ 127,575</b>     |
| <b>Other Comprehensive Income:</b>   |                       |                       |                       |
| Net unrealized gain (loss) on available for sale securities, net of tax                  | 217                   | 79                    | (112)                 |
| Net unrealized gain on interest rate swaps accounted for as cash flow hedges, net of tax | 44                    | 882                   | 2,184                 |
| Net change in currency translations  | 2,202                 | 4,796                 | 1,199                 |
| <b>Total comprehensive income</b>  | <b>\$ 216,805</b>     | <b>\$ 156,803</b>     | <b>\$ 130,846</b>     |

\* All share amounts have been adjusted for the March 22, 2006 3-for-2 stock split.  
See accompanying Notes to Consolidated Financial Statements.

**RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(in thousands, except per share amounts)

|  | Common Stock |          | Shares Exchangeable into Common Stock |          | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income | Treasury Stock |             | Total<br>Shareholders'<br>Equity |
|--|--------------|----------|---------------------------------------|----------|----------------------------------|----------------------|--|----------------|-------------|----------------------------------|
|  | Shares       | Amount   | Shares                                | Amount   |                                  |                      |  | Shares         | Amount      |                                  |
| Balances at September 26, 2003   | 49,691       | \$ 497   | 219                                   | \$ 6,450 | \$ 101,298                       | \$ 850,656           | \$ 604                                       | (1,401)        | \$ (34,770) | \$ 924,735                       |
| Net income fiscal 2004   |              |          |                                       |          |                                  | 127,575              |  |                |             | 127,575                          |
| Cash dividends - common stock (\$ .17 per share)*                            |              |          |                                       |          |                                  | (20,664)             |  |                |             | (20,664)                         |
| Purchase of treasury shares  |              |          |                                       |          |                                  |                      |  | (84)           | (1,955)     | (1,955)                          |
| 3-for-2 stock split  | 25,002       | 250      | 102                                   |          |                                  | (250)                |  | (593)          |             |                                  |
| Employee stock purchases   | 274          | 3        |                                       |          | 8,348                            |                      |  |                |             | 8,351                            |
| Exchangeable shares  | 36           | -        | (36)                                  | (957)    | 957                              |                      |  |                |             |                                  |
| Exercise of stock options  | 319          | 3        |                                       |          | 5,247                            |                      |  | 106            | 2,271       | 7,521                            |
| Grant of restricted shares   |              |          |                                       |          | 2,432                            |                      |  | 211            | 4,824       | 7,256                            |
| Stock option expense   |              |          |                                       |          | 9,123                            |                      |  |                |             | 9,123                            |
| Net unrealized loss on available for sale securities, net of tax             |              |          |                                       |          |                                  |                      | (112)  |                |             | (112)                            |
| Net unrealized gain on interest rate swaps accounted for as cash flow hedges |              |          |                                       |          |                                  |                      | 2,184  |                |             | 2,184                            |
| Net change in currency translations  |              |          |                                       |          |                                  |                      | 1,199  |                |             | 1,199                            |
| Balances at September 24, 2004   | 75,322       | \$ 753   | 285                                   | \$ 5,493 | \$ 127,405                       | \$ 957,317           | \$ 3,875                                     | (1,761)        | \$ (29,630) | \$ 1,065,213                     |
| Net income fiscal 2005   |              |          |                                       |          |                                  | 151,046              |  |                |             | 151,046                          |
| Cash dividends - common stock (\$ .21 per share)*                            |              |          |                                       |          |                                  | (26,300)             |  |                |             | (26,300)                         |
| Purchase of treasury shares  |              |          |                                       |          | 62                               |                      |  | (6)            | (177)       | (115)                            |
| Employee stock purchases   | 329          | 3        |                                       |          | 9,622                            |                      |  |                |             | 9,625                            |
| Exercise of stock options  | 916          | 9        |                                       |          | 13,961                           |                      |  | 54             | 913         | 14,883                           |
| Grant of restricted shares   |              |          |                                       |          | 5,678                            |                      |  | 457            | 7,690       | 13,368                           |
| Stock option expense   |              |          |                                       |          | 8,346                            |                      |  |                |             | 8,346                            |
| Net unrealized gain on available for sale securities, net of tax             |              |          |                                       |          |                                  |                      | 79   |                |             | 79                               |
| Net unrealized gain on interest rate swaps accounted for as cash flow hedges |              |          |                                       |          |                                  |                      | 882  |                |             | 882                              |
| Net change in currency translations  |              |          |                                       |          |                                  |                      | 4,796  |                |             | 4,796                            |
| Balances at September 30, 2005   | 76,567       | \$ 765   | 285                                   | \$ 5,493 | \$ 165,074                       | \$ 1,082,063         | \$ 9,632                                     | (1,256)        | \$ (21,204) | \$ 1,241,823                     |
| Net income fiscal 2006   |              |          |                                       |          |                                  | 214,342              |  |                |             | 214,342                          |
| Cash dividends - common stock (\$ .32 per share)                             |              |          |                                       |          |                                  | (37,570)             |  |                |             | (37,570)                         |
| Purchase of treasury shares  |              |          |                                       |          |                                  |                      |  | (126)          | (5,580)     | (5,580)                          |
| 3-for-2 stock split  | 38,945       | 389      | 129                                   |          |                                  | (389)                |  | (426)          |             |                                  |
| Employee stock purchases   | 321          | 3        |                                       |          | 10,710                           |                      |  |                |             | 10,713                           |
| Exchangeable shares  | 52           | -        | (52)                                  | (844)    | 844                              |                      |  |                |             |                                  |
| Exercise of stock options  | 987          | 10       |                                       |          | 19,721                           |                      |  | 290            | 4,761       | 24,492                           |
| Grant of restricted shares   | 784          | 8        |                                       |          |                                  |                      |  | 248            | 4,354       | 4,362                            |
| Restricted stock expense   |              |          |                                       |          | 11,308                           |                      |  |                |             | 11,308                           |
| Stock option expense   |              |          |                                       |          | 13,773                           |                      |  |                |             | 13,773                           |
| Restricted stock units   |              |          |                                       |          | 1,584                            |                      |  |                |             | 1,584                            |
| APIC reclass related to unvested restricted stock grants                     |              | (25)     |                                       |          | (17,816)                         |                      |  |                |             | (17,841)                         |
| Net unrealized gain on available for sale securities, net of tax             |              |          |                                       |          |                                  |                      | 217  |                |             | 217                              |
| Net unrealized gain on interest rate swaps accounted for as cash flow hedges |              |          |                                       |          |                                  |                      | 44   |                |             | 44                               |
| Net change in currency translations  |              |          |                                       |          |                                  |                      | 2,202  |                |             | 2,202                            |
| Balances at September 30, 2006   | 117,656      | \$ 1,150 | 362                                   | \$ 4,649 | \$ 205,198                       | \$ 1,258,446         | \$ 12,095                                    | (1,270)        | \$ (17,669) | \$ 1,463,869                     |

\* Adjusted to reflect 3-for-2 stock split paid on March 22, 2006.  
See accompanying Notes to Consolidated Financial Statements.

**RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)  
(continued on next page)

|   | Year ended            |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
| <b>Cash Flows from operating activities:</b>  |                       |                       |                       |
| Net Income  | \$ 214,342            | \$ 151,046            | \$ 127,575            |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities:               |                       |                       |                       |
| Depreciation and amortization   | 19,173                | 17,781                | 16,827                |
| Excess tax benefits from stock-based payment arrangements   | (1,646)               | -                     | -                     |
| Deferred income taxes   | (6,097)               | (15,301)              | (5,094)               |
| Unrealized gains, premium and discount amortization on available for sale securities and other securities | 196                   | (794)                 | (1,603)               |
| Ineffectiveness of interest rate swaps accounted for as cash flow hedges                                  | -                     | 208                   | (392)                 |
| Impairment on leveraged lease investments   | -                     | 6,534                 | 4,000                 |
| Loss (gain) on sale of property and equipment   | 143                   | (106)                 | 1,696                 |
| Provision for loan loss, legal proceedings, bad debts and other accruals                                  | 28,404                | 38,416                | 23,706                |
| Stock-based compensation expense  | 29,820                | 17,031                | 17,631                |
| Minority Interest   | (8,159)               | (2,518)               | 2,110                 |
| <br>(Increase) decrease in operating assets:  |                       |                       |                       |
| Assets segregated pursuant to federal regulations   | (838,095)             | (29,403)              | (86,036)              |
| Receivables:  |                       |                       |                       |
| Brokerage clients, net  | (78,980)              | (151,938)             | (185,124)             |
| Stock borrowed  | 11,747                | 457,030               | (328,317)             |
| Brokers-dealers and clearing organizations  | (99,683)              | 14,784                | 1,171                 |
| Other   | (39,084)              | (47,526)              | (35,572)              |
| Securities purchased under agreements to resell, net of securities sold under agreements to repurchase    | 68,182                | (48,270)              | (11,825)              |
| Trading securities, net   | (166,678)             | (6,694)               | (104,857)             |
| Prepaid expenses and other assets   | (32,170)              | (31,864)              | (31,785)              |
| <br>Increase (decrease) in operating liabilities:   |                       |                       |                       |
| Payables:   |                       |                       |                       |
| Brokerage clients   | 784,692               | 418,858               | 144,582               |
| Stock loaned  | 119,509               | (481,522)             | 369,966               |
| Brokers-dealers and clearing organizations  | (66,623)              | 72,011                | (80,499)              |
| Trade and other   | (572)                 | (10,743)              | (1,209)               |
| Accrued compensation, commissions and benefits  | 20,016                | 43,595                | 57,045                |
| Income taxes payable  | 2,681                 | (697)                 | 6,128                 |
| <br>Net cash (used in) provided by operating activities   | <br>(38,882)          | <br>409,918           | <br>(99,876)          |

See accompanying Notes to Consolidated Financial Statements

**RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)  
(continued)

|  | Year ended            |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
| <b>Cash Flows from investing activities:</b>   |                       |                       |                       |
| Additions to property and equipment, net   | (27,280)              | (30,154)              | (22,028)              |
| Loan originations and purchases  | (2,317,719)           | (692,857)             | (335,544)             |
| Loan repayments  | 1,044,015             | 379,298               | 208,810               |
| Purchases of other investments   | (66,726)              | -                     | -                     |
| Investments in real estate partnerships-held by variable interest entities   | (89,735)              | (75,967)              | (22,569)              |
| Loans to investor members of variable interest entities related to investments in real estate partnerships               | (42,715)              | (46,286)              | -                     |
| Repayments of loans by investor members of variable interest entities related to investments in real estate partnerships | 10,898                | -                     | -                     |
| Securities purchased under agreements to resell  | (460,000)             | -                     | -                     |
| Sale of available for sale securities  | 252                   | 9,250                 | -                     |
| Purchases of available for sale securities   | (1,180,414)           | (60,536)              | (66,011)              |
| Available for sale securities maturations and repayments   | 1,087,624             | 71,671                | 98,730                |
| <b>Net cash used in investing activities</b>   | <b>(2,041,800)</b>    | <b>(445,581)</b>      | <b>(138,612)</b>      |
| <b>Cash Flows from financing activities:</b>   |                       |                       |                       |
| Proceeds from borrowed funds, net  | 8,464                 | 16,542                | 80,198                |
| Repayments of mortgage and borrowings, net   | (13,288)              | (6,473)               | (111,014)             |
| Proceeds from borrowed funds related to investments by variable interest entities in real estate partnerships            | 54,249                | 74,921                | 44,250                |
| Repayments of borrowed funds related to investments by variable interest entities in real estate partnerships            | (5,382)               | (3,665)               | -                     |
| Proceeds from capital contributed to variable interest entities related to investments in real estate partnerships       | 83,215                | 32,051                | 3,991                 |
| Minority Interest  | (11,176)              | (4,210)               | 4,724                 |
| Exercise of stock options and employee stock purchases   | 33,120                | 23,066                | 14,620                |
| Increase (decrease) in bank deposits   | 1,730,860             | 302,984               | (6,479)               |
| Purchase of treasury stock   | (5,100)               | (115)                 | (1,955)               |
| Cash dividends on common stock   | (37,570)              | (26,300)              | (20,664)              |
| Excess tax benefits from stock-based payment arrangements  | 1,646                 | -                     | -                     |
| <b>Net cash provided by financing activities</b>   | <b>1,839,038</b>      | <b>408,801</b>        | <b>7,671</b>          |
| <b>Currency adjustment:</b>  |                       |                       |                       |
| Effect of exchange rate changes on cash  | 2,202                 | 4,796                 | 5,392                 |
| <b>Net (decrease) increase in cash and cash equivalents</b>  | <b>(239,442)</b>      | <b>377,934</b>        | <b>(225,425)</b>      |
| Cash resulting from consolidation of variable interest entities related to investments in real estate partnerships       | -                     | 20,851                | -                     |
| <b>Cash and cash equivalents at beginning of year</b>  | <b>881,133</b>        | <b>482,348</b>        | <b>707,773</b>        |
| <b>Cash and cash equivalents at end of year</b>  | <b>\$ 641,691</b>     | <b>\$ 881,133</b>     | <b>\$ 482,348</b>     |
| <b>Supplemental disclosures of cash flow information:</b>  |                       |                       |                       |
| Cash paid for interest   | \$ 294,215            | \$ 116,553            | \$ 48,229             |
| Cash paid for taxes  | \$ 129,480            | \$ 113,476            | \$ 75,511             |

See accompanying Notes to Consolidated Financial Statements

**RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Description of Business**

Raymond James Financial, Inc. ("RJF") is a holding company whose subsidiaries are engaged in various financial services businesses, including the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. In addition, some of these subsidiaries provide investment management services for retail and institutional clients and banking and trust services. The accounting and reporting policies of Raymond James Financial, Inc. and its subsidiaries (the "Company") conform to accounting principles generally accepted in the United States of America ("U.S."), the more significant of which are summarized below:

**Basis of Presentation**

The consolidated financial statements include the accounts of RJF and its consolidated subsidiaries that are generally controlled through a majority voting interest. All material consolidated subsidiaries are 100% owned by the Company. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"), the Company also consolidates any variable interest entities ("VIEs") of which it is the primary beneficiary, as defined. Additional information is provided in Note 6 below. When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity, the Company applies the equity method of accounting. All material intercompany balances and transactions have been eliminated in consolidation.

**Management Estimates and Assumptions**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and could have a material impact on the consolidated financial statements.

**Reporting Period**

Through fiscal 2005, the Company's fiscal year ended on the last Friday in September of each year. Three of the Company's wholly owned subsidiaries, Raymond James Bank ("RJBank"), Raymond James Limited ("RJ Ltd.") and Raymond James Tax Credit Funds, Inc. ("RJ Tax Credit"), have fiscal years that end on the last day of September. Certain other entities also have fiscal periods that do not coincide with the Company's fiscal period. Any individually material transactions are reviewed and recorded in the appropriate fiscal year.

On December 1, 2005 the Company's Board of Directors approved a change in the Company's fiscal year from the last Friday in September of each year to September 30 of each year. This also changes the ending date of the Company's fiscal quarters from the last Friday in each quarter to the last day of each quarter.

**Recognition of Revenues**

Securities transactions and related commission revenues and expenses are recorded on a trade date basis.

Investment banking revenues are recorded at the time a transaction is completed and the related income is reasonably determinable. Investment banking revenues include management fees and underwriting fees, net of reimbursable expenses, earned in connection with the distribution of the underwritten securities, merger and acquisition fees, private placement fees and limited partnership distributions.

The Company earns investment advisory fees based on the value of clients' portfolios managed by its investment advisor subsidiaries. These fees are recorded ratably over the period earned.

Financial service fees include per account fees such as IRA fees, transaction fees on fee based accounts, service fees and distributions fees received from mutual funds.

Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and retains a portion of commissions as a fee for its services. Correspondent clearing revenues are recorded net of commissions remitted and included in other revenue. Total commissions generated by correspondents were \$29,985,000, \$28,957,000, and \$24,289,000 and commissions remitted totaled \$25,049,000, \$24,435,000, and \$19,719,000 for the years ended September 30, 2006, September 30, 2005, and September 24, 2004, respectively.

#### **Cash and Cash Equivalents**

Cash equivalents are highly liquid investments with original maturities of 90 days or less, other than those used for trading purposes.

#### **Assets Segregated Pursuant to Federal Regulations**

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Raymond James & Associates ("RJA"), as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. Segregated assets at September 30, 2006 and September 30, 2005 consist of cash and cash equivalents.

#### **Repurchase Agreements**

The Company purchases short-term securities under agreements to resell ("reverse repurchase agreements"). Additionally, the Company sells securities under agreements to repurchase ("repurchase agreements"). Both reverse repurchase and repurchase agreements are accounted for as collateralized financings and are carried at contractual amounts plus accrued interest. Other than RJBank's policy described below, it is the Company's policy to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under the reverse repurchase agreements. To ensure that the market value of the underlying collateral remains sufficient, the collateral is valued daily, and the Company may require counterparties to deposit additional collateral (or may return collateral to counterparties) when appropriate.

RJBank's reverse repurchase agreements are accounted for as collateralized investing transactions and are recorded at the amounts at which the securities were acquired plus accrued interest. Securities obtained under the resale agreements have a market value equal to or exceeding the principal amount of the resale agreements. The securities are held by third party custodians and are segregated under written agreements that recognize RJBank's interest in the securities. The securities purchased are primarily mortgage-backed securities or collateralized mortgage obligations ("CMOs") issued by U.S. agencies. The market value of securities purchased is monitored and collateral is obtained from or returned to the counterparty when appropriate. These reverse repurchase agreements generally mature on the next business day. RJBank has the right to sell, transfer or pledge the securities purchased under agreements to resell.

#### **Securities Owned**

Trading securities are comprised primarily of the financial instruments held by the Company's broker-dealer subsidiaries. These instruments are recorded at fair value with unrealized gains and losses reflected in current period earnings. Fair values are generally based on prices from independent sources, such as listed market prices or broker or dealer price quotations. For investments in illiquid and privately held securities that do not have readily determinable fair values through quoted market prices, the determination of fair value is based upon consideration of available information, including types of securities, current financial information, restrictions on dispositions, market values of underlying securities and quotations for similar instruments.

Available for sale securities are comprised primarily of CMOs and mortgage related debt. Debt and equity securities classified as available for sale are reported at fair value with unrealized gains or losses, net of deferred taxes, reported in shareholders' equity as a component of accumulated other comprehensive income. Fair values of the debt securities are estimated based on bid quotations received from securities dealers or, if quoted market prices are not available, then the fair value is estimated using quoted market prices for similar securities, pricing models, or discounted cash flow analyses, using observable market data where available. All realized gains and losses are determined on a specific identification basis and are included in current period earnings. Additionally, any unrealized losses deemed to be other than temporary are included in current period earnings and a new cost basis for the security is established. Many factors are considered to determine whether an impairment is other-than-temporary, including whether the Company has the ability and intent to hold the investment until a market price recovery and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the security.

### **Brokerage Client Receivables and Allowance for Doubtful Accounts**

Brokerage client receivables include receivables of the Company's asset management and broker-dealer subsidiaries. The receivables from asset management clients are primarily for accrued asset management service fees, while the receivables from broker-dealer clients are principally for amounts due on cash and margin transactions and are generally collateralized by securities owned by the clients. Both the receivables from the asset management and broker-dealer clients are reported at their outstanding principal balance, adjusted for any allowance for doubtful accounts. When a broker-dealer receivable is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the Consolidated Statement of Financial Condition.

The Company also makes loans or pays advances to Financial Advisors, primarily for recruiting and retention purposes. The Company provides for an allowance for doubtful accounts based on an evaluation of the Company's ability to collect such receivables. The Company's ongoing evaluation includes the review of specific accounts of Financial Advisors no longer associated with the Company and the Company's historical collection experience.

### **Securities Borrowed and Securities Loaned**

Securities borrowed and securities loaned transactions are reported as collateralized financings and recorded at the amount of collateral advanced or received. Securities borrowed transactions generally require the Company to deposit cash with the lender. With respect to securities loaned, the Company generally receives collateral in the form of cash in an amount in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

### **Bank Client Loans and Allowances for Losses**

Bank loans are primarily comprised of loans originated or purchased by RJBank and include commercial and residential mortgage loans, as well as non-real estate commercial and consumer loans. The Company records these loans at amortized cost, adjusted for an allowance for loan loss. Included in amortized cost are any deferred fees or loan origination costs plus the unamortized premiums or discounts on purchased loans.

Loan origination fees, net of related costs, are capitalized and recognized in interest income using the interest or straight-line method, or proportionate to the amount of principal payments, over the contractual life of the loans.

Client loans at RJBank are generally collateralized by real estate or other property. RJBank provides for both an allowance for losses in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies", and a reserve for individually impaired loans in accordance with SFAS No. 114, "Accounting by a Creditor for Impairment of a Loan". The calculation of the SFAS No. 5 allowance is subjective as management segregates the loan portfolio into different homogeneous classes and assigns each class an allowance percentage based on the perceived risk associated with that class of loans. During the fiscal year, RJBank re-evaluated and implemented changes to the loan loss reserve methodology in conjunction with a revision to the corporate loan grading process. Because of continued and planned growth, the loan grading process was revised and expanded to provide more specific and detailed risk measurement across the corporate loan portfolio. The factors taken into consideration when assigning the reserve percentage to each reserve category include estimates of borrower default probabilities and collateral values; trends in delinquencies; volume and terms; changes in geographic distribution, lending policies, local, regional, and national economic conditions; concentrations of credit risk and past loss history. In addition, the Company provides for potential losses inherent in RJBank's unfunded lending commitments using the criteria above, further adjusted for an estimated probability of funding. For individual loans identified as impaired, RJBank measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateralized. At September 30, 2006, the amortized cost of all RJBank loans was \$2.3 billion and an allowance for loan losses of \$18.7 million was recorded against that balance. The total allowance for loan losses, including \$4 million in reserves for off-balance sheet exposures maintained in Other Liabilities, approximates 1% of the amortized cost of the loan portfolio.

Once RJBank has identified a loan as impaired, the accrual of interest on the loan is discontinued when either principal or interest becomes 90 days past due or when the full timely collection of interest or principal becomes uncertain. When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is written off and accretion of the net deferred loan origination fees ceases. The loan is accounted for on the cash or cost recovery method thereafter until qualifying for return to accrual status.

#### **Investments in Real Estate Partnerships- Held by Variable Interest Entities**

A wholly owned subsidiary of the Company is the managing member or general partner in several separate tax credit housing funds. Additional information is presented in Note 6 below. These funds invest in limited partnerships which purchase and develop affordable housing properties qualifying for federal and state tax credits. As of September 30, 2006 and September 30, 2005, the investments related to these limited partnerships totaled approximately \$228.0 million and \$138.2 million, respectively, on the Company's Consolidated Statement of Financial Condition.

#### **Property and Equipment**

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of assets is primarily provided for using the straight-line method over the estimated useful lives of the assets, which range from three to seven years for software, two to five for furniture and equipment and 10 to 31 years for buildings and land improvements. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

Additions, improvements and expenditures for repairs and maintenance that significantly extend the useful life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to operations in the period incurred. Gains and losses on disposals of property and equipment are reflected in income in the period realized.

#### **Goodwill**

Intangible assets consist predominantly of goodwill related to the acquisitions of Roney & Co. (now part of RJA) and Goepel McDerimid, Inc. (now called Raymond James Ltd). This goodwill, totaling \$63 million, was allocated to the reporting units within the Private Client Group and Capital Markets segments pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets". Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In accordance with SFAS No. 142, indefinite-life intangible assets and goodwill are not amortized. Rather they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment.

When available, the Company uses recent, comparable transactions to estimate the fair value of the respective reporting units. The Company calculates an estimated fair value based on multiples of revenues, earnings, and book value of comparable transactions. However, when such comparable transactions are not available or have become outdated, the Company uses discounted cash flow scenarios to estimate the fair value of the reporting units. As of September 30, 2006, goodwill had been allocated to the Private Client Group of RJA, and both the Private Client Group and Capital Markets segments of RJ Ltd. As of the most recent impairment test, the Company determined that the carrying value of the goodwill for each reporting unit had not been impaired. However, changes in current circumstances or business conditions could result in an impairment of goodwill. As required, the Company will continue to perform impairment testing on an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

#### **Exchange Memberships**

Exchange memberships are carried at cost or, if an "other than temporary" impairment in value has occurred, at a value that reflects management's estimate of the impairment. The Company's membership interests, which are included in prepaid expenses and other assets at a cost of \$1,009,000 and \$2,820,000 at September 30, 2006, and September 30, 2005, respectively, had an aggregate market value of \$2,565,000 and \$10,743,000 at September 30, 2006 and September 30, 2005, respectively. The market value of the exchange memberships is determined based on the last reported sale.

#### **Legal Reserves**

The Company recognizes liabilities for contingencies when there is an exposure that, when fully analyzed, indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. When a range of probable loss can be estimated, the Company accrues the most likely amount; if not determinable, the Company accrues at least the minimum of the range of probable loss.

The Company records reserves related to legal proceedings in "other payables". Such reserves are established and maintained in accordance with SFAS No. 5, "Accounting for Contingencies", and FIN No. 14. The determination of these reserve amounts requires significant judgment on the part of management. Management considers many factors including, but not limited to: the amount of the claim; the amount of the loss in the client's account; the basis and validity of the claim; the possibility of wrongdoing on the part of an employee of the Company; previous results in similar cases; and legal precedents and case law. Each legal proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Lastly, each case is reviewed to determine if it is probable that insurance coverage will apply, in which case the reserve is reduced accordingly. Any change in the reserve amount is recorded in the consolidated financial statements and is recognized as a charge/credit to earnings in that period.

#### **Stock Compensation**

At September 30, 2006, the Company had multiple stock-based employee compensation plans, which are described more fully in Note 17 below. In addition, the Company has a stock option plan for its independent contractor Financial Advisors, which is described more fully in Note 18 below. Effective October 1, 2005, the Company adopted the provisions of SFAS No. 123R. Given that the Company had adopted the fair value recognition provisions as of September 28, 2002, using the modified prospective method of adoption within the provisions of SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure", the adoption of SFAS No. 123R did not have a material impact on the Company's accounting for employee stock-based compensation. The Company accounts for stock options granted to its independent contractor Financial Advisors following the provisions of Emerging Issues Task Force ("EITF") Issue No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." As a result, these options are revalued at each reporting date for purposes of measuring compensation expense associated with these options. Compensation expense is recognized for all stock-based compensation with future service requirements over the relevant vesting periods.

#### **Derivative Financial Instruments**

The Company makes limited use of derivative financial instruments in certain of its businesses. Certain derivative financial instruments have been used to manage specifically identified interest rate risk at RJBank, while others are used in the conduct of the Company's fixed income business. The Company accounts for derivative financial instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as subsequently amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statements No. 133", SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities", and SFAS No. 149, "Amendments of Statement 133 on Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivatives and hedging activities. These statements establish standards for designating a derivative as a hedge. Derivatives in a broker-dealer or those that do not meet the criteria for designation as a hedge are accounted for as trading account assets and liabilities, and recorded at fair value in the statement of financial condition with the realized and unrealized gains or losses recorded in the consolidated statement of operations for that period.

Under FIN 39, "Offsetting of Amounts Related to Certain Contracts", the Company elects to net-by-counterparty the fair value of interest rate swap contracts entered into by the Fixed Income Trading group. Certain contracts contain a legally enforceable master netting arrangement and therefore, the fair value of those swap contracts are netted by counterparty in the consolidated statement of financial condition.

The Company uses interest rate swaps as well as future contracts as part of its fixed income business. In addition, the Company enters into interest rate swaps which are, in turn, substantially economically hedged with counterparties. These positions are marked to market with the gain or loss and the related interest recorded in Net Trading Profits within the statement of operations for the period. Any collateral exchanged as part of the swap agreement is recorded in Broker Receivables and Payables in the consolidated statement of financial condition for the period.

To manage interest rate exposures, RJBank has used interest rate swaps. Interest rate swaps are agreements to exchange interest rate payment streams based on a notional principal amount. RJBank specifically designated interest rate swaps as hedges of the variability in interest rates on the deposit base utilized to fund the purchase of loan pools that initially carry a fixed rate, and recognized interest differentials as adjustments to net interest income in the period they occurred.

All derivative instruments are recognized on the statement of financial condition at their fair value. On the date the derivative contract is entered into, RJBank designates the derivative as a hedge of the variability of cash flows to be paid related to a recognized liability ("cash flow hedge"). RJBank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific liabilities on the statement of financial condition. RJBank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of the hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income to the extent effective, until earnings are affected by the variability in cash flows of the designated hedged item. Any ineffectiveness resulting from the cash flow hedge is recorded in RJBank's non-interest income or expense at the end of each hedging period.

RJBANK discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated or exercised, or the derivative is no longer designated as a hedging instrument, because management determines that the designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, RJBank continues to carry the derivative at its fair value in the statement of financial condition, and recognizes any changes in its fair value in earnings.

#### **Foreign Currency Translation**

The Company consolidates its foreign subsidiaries and joint ventures. The statement of financial condition of the subsidiaries and joint ventures are translated at exchange rates as of the period end. The statements of operations are translated at an average exchange rate for the period. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars are included in shareholders' equity as a component of accumulated other comprehensive income.

#### **Income Taxes**

The Company utilizes the asset and liability approach defined in SFAS No. 109, "Accounting for Income Taxes", which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement amounts and the tax bases of assets and liabilities.

#### **Earnings per Share**

Basic EPS is calculated by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS, but adjusts for the effect of the potential issuance of common shares by application of the treasury stock method.

#### **Reclassifications**

Certain amounts from prior years have been reclassified to conform to the current year presentation. The effect of these reclassifications on the Company's previously reported annual consolidated financial statements was not material. These reclassifications had no effect on net income.

#### **Revision to 2005 and 2004 Consolidated Statements of Cash Flows**

Certain amounts in the Company's 2005 and 2004 Consolidated Statements of Cash Flows have been reclassified between operating, investing and financing activities to comply with SFAS No. 95, "Statement of Cash Flows" (see Note 23 of the Notes to Consolidated Financial Statements). The effect of these reclassifications on the Company's previously reported annual consolidated financial statements was not material. These reclassifications had no effect on net income.

**NOTE 2 - TRADING SECURITIES AND TRADING SECURITIES SOLD BUT NOT YET PURCHASED:**

|                        | September 30, 2006 |                                       | September 30, 2005 |                                       |
|------------------------|--------------------|---------------------------------------|--------------------|---------------------------------------|
|                        | Trading Securities | Securities Sold but Not yet Purchased | Trading Securities | Securities Sold but Not yet Purchased |
|                        | (in 000's)         |                                       |                    |                                       |
| Marketable:            |                    |                                       |                    |                                       |
| Equities               | \$ 29,532          | \$ 19,068                             | \$ 32,237          | \$ 30,256                             |
| Municipal obligations  | 192,028            | 5                                     | 177,984            | 17                                    |
| Corporate obligations  | 134,431            | 968                                   | 27,830             | 2,285                                 |
| Government obligations | 37,793             | 31,636                                | 42,009             | 99,465                                |
| Agencies               | 68,380             | 34,023                                | 60,445             | 84                                    |
| Derivative Contracts   | 20,904             | 8,309                                 | 12,795             | 2,488                                 |
| Other                  | 2,684              | -                                     | 2,019              | -                                     |
| Non-marketable         | 19                 | -                                     | 4,360              | -                                     |
|                        | <u>\$485,771</u>   | <u>\$94,009</u>                       | <u>\$359,679</u>   | <u>\$134,595</u>                      |

Corporate obligations and agencies included mortgage-backed securities of \$77.1 million and \$79.8 million at September 30, 2006 and September 30, 2005, respectively, are included in the table above. Mortgage-backed securities sold but not yet purchased of \$34.0 million and \$84,000 at September 30, 2006 and September 30, 2005, respectively, are included in agencies in the table above. Net unrealized gains (losses) related to open trading positions at September 30, 2006, September 30, 2005, and September 24, 2004 were \$4,387,000, \$(1,257,000), and \$7,025,000, respectively.

**NOTE 3 - AVAILABLE FOR SALE SECURITIES:**

Available for sale securities are comprised primarily of CMOs, mortgage related debt, and certain equity securities of the Company's non-broker-dealer subsidiaries, principally RJBank. There were proceeds of \$252,000 from the sale of securities available for sale for the year ended September 30, 2006. There were proceeds of \$9,250,000 for the year ended September 30, 2005 and no proceeds for the year ended September 24, 2004.

The amortized cost and estimated market values of securities available for sale at September 30, 2006 are as follows:

|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|--|-------------------|------------------------|-------------------------|------------------------|
|  | (in 000's)        |                        |                         |                        |
| Agency collateralized mortgage obligations     | \$ 140,888        | \$ 461                 | \$ (27)                 | \$ 141,322             |
| Non-agency collateralized mortgage obligations | 137,753           | 330                    | (156)                   | 137,927                |
| Other  | 1,306             | 26                     | (1)                     | 1,331                  |
|  | <u>\$ 279,947</u> | <u>\$ 817</u>          | <u>\$ (184)</u>         | <u>\$ 280,580</u>      |

The amortized cost and estimated market values of securities available for sale at September 30, 2005 are as follows:

|  | Amortized Cost    | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|--|-------------------|------------------------|-------------------------|------------------------|
|  | (in 000's)        |                        |                         |                        |
| Agency collateralized mortgage obligations     | \$ 180,410        | \$ 420                 | \$ (34)                 | \$180,796              |
| Non-agency collateralized mortgage obligations | 5,166             | -                      | (171)                   | 4,995                  |
| Other  | 1,688             | 70                     | -                       | 1,758                  |
|  | <u>\$ 187,264</u> | <u>\$ 490</u>          | <u>\$ (205)</u>         | <u>\$187,549</u>       |

The amortized cost and estimated market value of securities available for sale at September 30, 2006, by contractual maturity are shown below. Since RJBank's available for sale securities are backed by mortgages, actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

|                   | Amortized<br>Cost | Estimated<br>Market<br>Value |
|-------------------|-------------------|------------------------------|
| (in 000's)        |                   |                              |
| One year or less  | \$ 1,237          | \$ 1,238                     |
| One to five years | 1,098             | 1,100                        |
| Five to 10 years  | -                 | -                            |
| After 10 years    | 277,612           | 278,242                      |
|                   | <u>\$ 279,947</u> | <u>\$ 280,580</u>            |

The following table shows RJBank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, at September 30, 2006 (in 000's).

|   | Less than 12 months        |                      | 12 months or more          |                      | Total                      |                      |
|---|----------------------------|----------------------|----------------------------|----------------------|----------------------------|----------------------|
|   | Estimated<br>fair<br>value | Unrealized<br>losses | Estimated<br>fair<br>value | Unrealized<br>losses | Estimated<br>fair<br>value | Unrealized<br>losses |
| Agency collateralized<br>mortgage obligations     | \$ 20,357                  | \$ (9)               | \$ 19,052                  | \$ (18)              | \$ 39,409                  | \$ (27)              |
| Non-agency collateralized<br>mortgage obligations | 6,199                      | (10)                 | 4,186                      | (146)                | 10,385                     | (156)                |
| Total temporarily impaired securities             | <u>\$ 26,556</u>           | <u>\$ (19)</u>       | <u>\$ 23,238</u>           | <u>\$ (164)</u>      | <u>\$ 49,794</u>           | <u>\$ (183)</u>      |

The reference point for determining when securities are in a loss position is fiscal year-end. As such, it is possible that a security had a fair value that exceeded its amortized cost on other days during the past twelve-month period. The unrealized losses at September 30, 2006, were primarily caused by interest rate changes. The Federal National Mortgage Association or Federal Home Loan Mortgage Corporation guarantees the contractual cash flows of the agency collateralized mortgage obligation securities, and the non-agency collateralized mortgage obligations are rated AAA. It is expected that the securities would not be settled at a price less than the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until a fair value recovery or maturity, these investments are not considered "other-than-temporarily" impaired.

**NOTE 4 - RECEIVABLES FROM AND PAYABLES TO BROKERAGE CLIENTS:****Receivables from Brokerage Clients**

Receivables from brokerage clients include amounts arising from normal cash and margin transactions and fees receivable. Margin receivables are collateralized by securities owned by brokerage clients. Such collateral is not reflected in the accompanying consolidated financial statements. The amount receivable from clients at September 30, 2006 and September 30, 2005 is as follows:

|                                   | September 30,<br>2006 | September 30,<br>2005 |
|-----------------------------------|-----------------------|-----------------------|
|                                   | (in 000's)            |                       |
| Brokerage client receivables      | \$ 1,505,126          | \$ 1,426,890          |
| Allowance for doubtful accounts   | (519)                 | (794)                 |
| Brokerage client receivables, net | <u>\$ 1,504,607</u>   | <u>\$ 1,426,096</u>   |

**Payables to Brokerage Clients**

Payables to brokerage clients include brokerage client funds on deposits awaiting reinvestment. The following table presents a summary of such payables at September 30, 2006 and September 30, 2005:

|                                 | September 30,<br>2006 | September 30,<br>2005 |
|---------------------------------|-----------------------|-----------------------|
|                                 | (\$ in 000's)         |                       |
| Brokerage client payables:      |                       |                       |
| Interest bearing                | \$ 4,140,197          | \$ 3,301,599          |
| Non-interest bearing            | 412,030               | 465,936               |
| Total brokerage client payables | <u>\$ 4,552,227</u>   | <u>\$ 3,767,535</u>   |

Interest expense on brokerage client payables for the years ended September 30, 2006, September 30, 2005, and September 24, 2004 was \$143,428,000, \$58,486,000, and \$11,659,000, respectively.

**NOTE 5 - BANK LOANS, NET:**

Bank client receivables are primarily comprised of loans originated or purchased by RJBank and include commercial and residential mortgage loans, as well as consumer loans. These receivables are collateralized by first or second mortgages on residential property, real property, or the general assets of the borrower. The following table provides a summary of RJBank's loans receivable at September 30, 2006 and September 30, 2005:

|   | September 30,<br>2006 | September 30,<br>2005 |
|---|-----------------------|-----------------------|
|   | (in 000's)            |                       |
| Residential mortgage loans              | \$ 1,322,911          | \$ 689,129            |
| Commercial loans                        | 960,977               | 313,191               |
| Consumer loans                          | 1,917                 | 3,866                 |
|   | <u>2,285,805</u>      | <u>1,006,186</u>      |
| Allowance for loan losses               | (18,694)              | (7,593)               |
| Net (unearned income) deferred expenses | (4,279)               | 1,688                 |
|   | <u>\$ 2,262,832</u>   | <u>\$ 1,000,281</u>   |

At September 30, 2006 and September 30, 2005, \$60,000,000 and \$70,000,000 in Federal Home Loan Bank ("FHLB") advances, respectively, were secured by a blanket lien on RJBank's residential mortgage loan portfolio.

RJBank's gain from the sale of originated loans held for sale were \$413,000, \$421,000, and \$258,000 for the years ended September 30, 2006, September 30, 2005, and September 24, 2004, respectively.

Certain officers, directors, and affiliates, and their related interests were indebted to RJBank for \$294,000 and \$297,000 at September 30, 2006 and September 30, 2005, respectively.

Changes in the allowance for loan losses and reserve for unfunded lending commitments at RJBank for the years ended September 30, 2006, September 30, 2005, and September 24, 2004 are as follows:

|                                 | <b>September 30,<br/>2006</b> | <b>September 30,<br/>2005</b> | <b>September 24,<br/>2004</b> |
|---------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                                 | (in 000's)                    |                               |                               |
| Balance, beginning of year      | \$ 9,030                      | \$ 7,642                      | \$ 5,910                      |
| Provision charged to operations | 13,760                        | 1,388                         | 1,732                         |
| Charge-offs                     | (61)                          | -                             | -                             |
| Recoveries                      | 9                             | -                             | -                             |
| <b>Balance, end of year</b>     | <b>\$ 22,738</b>              | <b>\$ 9,030</b>               | <b>\$ 7,642</b>               |

The total allowance for loan losses includes both the reserve for funded loans shown net of Bank Loans Receivable on the statement of financial condition, and the reserve for unfunded lending commitments included in Trade and Other Payables.

The investment in loans on nonaccrual status at September 30, 2006 was \$2.1 million. At September 30, 2005, loans on nonaccrual status were immaterial to the consolidated financial statements.

The investment and the average balance of impaired loans at September 30, 2006, September 30, 2005, and September 24, 2004 along with the related interest income recognized on these loans, were immaterial to the consolidated financial statements.

**NOTE 6 - VARIABLE INTEREST ENTITIES (“VIEs”):**

Under the provisions of FIN 46R the Company has determined that Raymond James Employee Investment Funds I and II (the “EIF Funds”), Comprehensive Software Systems, Inc. (“CSS”), certain entities in which Raymond James Tax Credit Funds, Inc. (“RJTCF”) owns variable interests, various partnerships involving real estate, and a trust fund established for employee retention purposes are VIEs. Of these, the Company has determined that the EIF Funds, certain tax credit fund partnerships/LLCs, and the trust fund should be consolidated in the financial statements.

The following table summarizes the balance sheets of the variable interest entities consolidated by the Company:

|  | September 30,<br>2006 | September 30,<br>2005 |
|--|-----------------------|-----------------------|
|  | (in 000's)            |                       |
| <b>Assets:</b>   |                       |                       |
| Cash and cash equivalents  | \$ 17,622             | \$ 23,272             |
| Receivables, other   | 88,145                | 56,357                |
| Investments in real estate partnerships - held by variable interest entities                   | 227,963               | 138,228               |
| Trust fund investment in parent company common stock*  | 5,100                 | -                     |
| Prepaid expenses and other assets  | 16,426                | 12,270                |
| <b>Total Assets</b>  | <b>\$ 355,256</b>     | <b>\$ 230,127</b>     |
| <b>Liabilities and Shareholders' Equity:</b>   |                       |                       |
| Loans payable related to investments by variable interest entities in real estate partnerships | \$ 193,647            | \$ 144,780            |
| Trade and other  | 279                   | 2,338                 |
| Intercompany payable   | 16,098                | -                     |
| <b>Total Liabilities</b>   | <b>210,024</b>        | <b>147,118</b>        |
| Minority Interests   | 143,217               | 81,328                |
| Shareholders' Equity   | 2,015                 | 1,681                 |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>\$ 355,256</b>     | <b>\$ 230,127</b>     |

\* Included in common shares in treasury in the Company's Consolidated Statement of Financial Condition.

The EIF Funds are limited partnerships, for which the Company is the general partner, that invest in the merchant banking and private equity activities of the Company and other unaffiliated venture capital limited partnerships. The EIF Funds were established as compensation and retention measures for certain qualified key employees of the Company. The Company makes non-recourse loans to these employees for two-thirds of the purchase price per unit. The loans and applicable interest are to be repaid based on the earnings of the EIF Funds. The Company is deemed to be the primary beneficiary, and accordingly, consolidates the EIF Funds, which had combined assets of approximately \$20.5 million at September 30, 2006. None of those assets act as collateral for any obligations of the EIF Funds. The Company's exposure to loss is limited to its contributions and the non-recourse loans funded to the employee investors, for which their partnership interests serve as collateral. At September 30, 2006 that exposure is approximately \$8.8 million.

CSS was formed by a group of broker-dealer firms, including the Company, to develop a back-office software system. CSS is currently funded by capital contributions and loans from its owners. CSS had assets of \$4.7 million at September 30, 2006. As of September 30, 2006, the Company owns approximately 42% of CSS. The Company's exposure to loss is limited to its capital contributions, amounts loaned and committed. The Company is not the primary beneficiary of CSS and accounts for its investment using the equity method of accounting.

RJTCF is a wholly owned subsidiary of RJF and is the managing member or general partner in approximately 43 separate tax credit housing funds having one or more investor members or limited partners. These tax credit housing funds are organized as limited liability companies or limited partnerships for the purpose of investing in limited partnerships which purchase and develop low income housing properties qualifying for tax credits. As of September 30, 2006, 41 of these tax credit housing funds are VIEs as defined by FIN 46R, and RJTCF's interest in these tax credit housing funds which are VIEs range from .01% to 1%.

RJTCF has concluded it is the primary beneficiary in approximately one quarter of these tax credit housing funds, and accordingly, consolidates these funds, which have combined assets of approximately \$329.6 million at September 30, 2006. None of those assets act as collateral for any obligations of these funds. The Company's exposure to loss is limited to its investments in and advances to these funds. At September 30, 2006, that exposure is approximately \$15.3 million.

RJTCF is not the primary beneficiary of the remaining tax credit housing funds it determined to be VIEs and accordingly the Company does not consolidate its financial interests in these funds. The Company's exposure to loss is limited to its investments in and advances to those funds. At September 30, 2006, that exposure is approximately \$21.2 million.

The two remaining tax credit housing funds that have been determined not to be VIEs are wholly owned by RJTCF and are included in the Company's consolidated financial statements. As of September 30, 2006, only one of these funds had any material activity. This fund typically holds interests in certain tax credit limited partnerships for less than 90-days and has assets of approximately \$4.3 million at September 30, 2006.

As of September 30, 2006, the Company has a variable interest in several limited partnerships involved in various real estate activities, in which a subsidiary is the general partner. The Company is not the primary beneficiary of these partnerships and accordingly the Company does not consolidate its financial interests in these partnerships. These partnerships have assets of approximately \$25.5 million at September 30, 2006. The Company's exposure to loss is limited to its capital contributions. The carrying value of the Company's investment in these partnerships is not material at September 30, 2006.

One of the Company's restricted stock plans is associated with a trust fund which was established through the Company's wholly owned Canadian subsidiary. This trust fund was established and funded to enable the trust fund to acquire Company common stock in the open market to be used to settle restricted stock units granted as a retention vehicle for certain employees of the Canadian subsidiary. For financial statement purposes, the Company is deemed to be the primary beneficiary in accordance with FIN 46R, and accordingly, consolidates this trust fund, which has assets of approximately \$5.1 million at September 30, 2006. None of those assets are specifically pledged as collateral for any obligations of the trust fund. The Company's exposure to loss is limited to its contributions to the trust fund. At September 30, 2006, that exposure is approximately \$5.1 million.

**NOTE 7 - LEVERAGED LEASES:**

The Company is the lessor in two leveraged commercial aircraft transactions with two major domestic airlines (Delta and Continental). The Company's ability to realize its expected return is dependent upon the airlines' ability to fulfill their lease obligations. In the event that the airlines default on their lease commitments and the Trustee for the debt holders is unable to re-lease or sell the planes with adequate terms, the Company would suffer a loss of some or all of its investment. Delta Airlines filed for bankruptcy protection on September 14, 2005. Accordingly, the Company recorded a \$6.5 million pretax charge in 2005 to fully reserve the balance of its investment in the leveraged lease of an aircraft to Delta. The Company also had taken a \$4 million pretax charge in 2004 to partially reserve for this investment. No amount of these charges represents a cash expenditure; however, in the likely event of a material modification to the lease or foreclosure of the aircraft by the debt holders in fiscal 2007, certain tax payments of up to approximately \$8.1 million could be accelerated. The expected tax payments are currently reflected on the statement of financial condition as a deferred tax liability and are not expected to result in a further charge to earnings.

The Company also has a leveraged lease outstanding with Continental valued at \$10.9 million as of Sept. 30, 2006. The Company's equity investment represented 20% of the aggregate purchase price; the remaining 80% was funded by public debt issued in the form of equipment trust certificates. The residual value of the aircraft at the end of the lease term of approximately 17 years is projected to be 15% of the original cost. This lease expires in May 2014.

|   | September 30,<br>2006 | September 30,<br>2005 |
|---|-----------------------|-----------------------|
|   | (in 000's)            |                       |
| Rents receivable (net of principal and interest on the non-recourse debt) | \$ 8,576              | \$ 9,502              |
| Unguaranteed residual values  | 8,012                 | 8,012                 |
| Unearned income   | (5,706)               | (5,706)               |
| Investment in leveraged leases  | 10,882                | 11,808                |
| Deferred taxes arising from leveraged leases                              | (19,796)              | (21,349)              |
| Net investment in leveraged leases  | \$ (8,914)            | \$ (9,541)            |

Although Continental remains current on its lease payments to the Company, the inability of Continental to make its lease payments, or the termination or modification of the lease through a bankruptcy proceeding, could result in the write-down of the Company's investment and the acceleration of certain income tax payments. The Company is monitoring this lessee for specific events or circumstances that would increase the likelihood of a default on Continental's obligations under this lease given the difficult economic environment for the airline industry.

**NOTE 8 - PROPERTY AND EQUIPMENT:**

|   | September 30,<br>2006 | September 30,<br>2005 |
|---|-----------------------|-----------------------|
|   | (in 000's)            |                       |
| Land  | \$ 18,644             | \$ 19,244             |
| Construction in process                         | 4,755                 | 10,175                |
| Buildings, leasehold and land improvements      | 137,117               | 123,773               |
| Furniture, fixtures, and equipment              | 155,198               | 145,774               |
|   | 315,714               | 298,966               |
| Less: accumulated depreciation and amortization | (172,934)             | (161,411)             |
|   | \$ 142,780            | \$ 137,555            |

**NOTE 9 - BANK DEPOSITS:**

Bank deposits include demand deposits, savings accounts and certificates of deposit. The following table presents a summary of bank deposits at September 30, 2006 and September 30, 2005:

|  | September 30,<br>2006 |                          | September 30,<br>2005 |                          |
|--|-----------------------|--------------------------|-----------------------|--------------------------|
|  | Balance               | Weighted<br>Average Rate | Balance               | Weighted<br>Average Rate |
|  | (\$ in 000's)         |                          |                       |                          |
| Bank deposits:                         |                       |                          |                       |                          |
| Demand deposits - interest bearing     | \$ 6,088              | 1.95%                    | \$ 4,405              | 0.84%                    |
| Demand deposits - non-interest bearing | 2,538                 | -                        | 4,210                 | -                        |
| Savings and money market accounts      | 2,542,894             | 4.59%                    | 846,745               | 2.63%                    |
| Certificates of deposit <sup>(1)</sup> | 255,360               | 4.49%                    | 220,660               | 3.61%                    |
| Total bank deposits                    | \$2,806,880           | 4.57%                    | \$1,076,020           | 2.82%                    |

(1) Certificates of deposit in amounts of \$100,000 or more at September 30, 2006 and September 30, 2005 were \$72,067,000 and \$61,018,000, respectively.

Certificates of deposit issued have remaining maturities at September 30, 2006 and September 30, 2005, as follows:

|                                   | September 30,<br>2006 | September 30,<br>2005 |
|-----------------------------------|-----------------------|-----------------------|
| (in 000's):                       |                       |                       |
| One year or less                  | \$125,622             | \$120,380             |
| One to two years                  | 50,427                | 25,737                |
| Two to three years                | 36,306                | 23,460                |
| Three to four years               | 24,885                | 29,434                |
| Four to five years and thereafter | 18,120                | 21,649                |
| Total                             | <u>\$255,360</u>      | <u>\$220,660</u>      |

RJBank had deposits from officers and directors of \$691,000 and \$625,000 at September 30, 2006 and September 30, 2005, respectively.

Interest expense on bank client accounts is comprised of the following for the years ended September 30, 2006, September 30, 2005 and September 24, 2004:

|                                   | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
|-----------------------------------|-----------------------|-----------------------|-----------------------|
| (in 000's)                        |                       |                       |                       |
| Demand deposits                   | \$ 81                 | \$ 24                 | \$ 9                  |
| Savings and money market accounts | 51,233                | 12,017                | 1,644                 |
| Certificates of deposit           | 10,872                | 6,577                 | 5,101                 |
|                                   | <u>\$ 62,186</u>      | <u>\$ 18,618</u>      | <u>\$ 6,754</u>       |

**NOTE 10 - LOANS PAYABLE:**

**Loans Payable**

Loans payable at September 30, 2006 and September 30, 2005 are presented below:

|  | September 30,<br>2006 | September 30,<br>2005 |
|--|-----------------------|-----------------------|
| (in 000's)                                     |                       |                       |
| <b>Short-term Borrowings:</b>                  |                       |                       |
| Borrowings on lines of credit <sup>(1)</sup>   | \$ 13,040             | \$ 5,338              |
| Current portion of mortgage notes payable      | 2,746                 | 2,604                 |
| Total short-term borrowings                    | <u>15,786</u>         | <u>7,942</u>          |
| <b>Long-term Borrowings:</b>                   |                       |                       |
| Mortgage notes payable <sup>(2)</sup>          | 65,852                | 68,520                |
| Federal Home Loan Bank advances <sup>(3)</sup> | 60,000                | 70,000                |
| Total long-term borrowings                     | <u>125,852</u>        | <u>138,520</u>        |
| Total loans payable                            | <u>\$141,638</u>      | <u>\$146,462</u>      |

- (1) The Company and its subsidiaries maintain one committed and several uncommitted lines of credit denominated in U.S. dollars and one uncommitted line of credit denominated in Canadian dollars ("CDN"). At September 30, 2006, the aggregate domestic lines were \$710 million and CDN \$40 million, respectively, of which CDN \$10.2 million was outstanding. The interest rates for the lines of credit are variable and are based on the Fed Funds rate, LIBOR, and Canadian prime rate. For the fiscal year ended September 30, 2006, interest rates on the lines of credit ranged from 4.25% to 6.76%. For the fiscal year ended, September 30, 2005 interest rates on the lines of credit ranged from 2.25% to 5.34%. In addition, various foreign joint ventures of the Company have several lines of credit. At September 30, 2006 the aggregate unsecured lines of credit were \$22.4 million, of which \$3.8 million was outstanding. The interest rates for the lines of credit range from 17% to 20%.
- (2) Mortgage notes payable is comprised of a mortgage loan for the financing of the Company's home office complex and a note for the financing of the office for a foreign joint venture. The mortgage loan bears interest at 5.7% and is secured by land, buildings, and improvements with a net book value of \$73.6 million at September 30, 2006. The foreign joint venture note bears interest at 8.25% and is secured by the building.
- (3) RJBANK has \$60 million in FHLB advances outstanding at September 30, 2006, which are comprised of long-term, fixed rate advances. The long-term, fixed rate advances bear interest at rates ranging from 2.37% to 5.67%. The outstanding FHLB advances mature between May 2008 and October 2014. These advances are secured by a blanket lien on RJBANK's residential loan portfolio granted to FHLB at September 30, 2006. The FHLB has the right to convert advances totaling \$50 million and \$65 million at September 30, 2006 and September 30, 2005, respectively, to a floating rate at one or more future dates. RJBANK has the right to prepay these advances without penalty if the FHLB exercises its right.

Long-term borrowings at September 30, 2006, based on their contractual terms, mature as follows (in 000's):

|                     |                  |
|---------------------|------------------|
| 2008                | \$ 7,911         |
| 2009                | 3,086            |
| 2010                | 8,272            |
| 2011                | 43,469           |
| 2012 and thereafter | 63,114           |
| Total               | <u>\$125,852</u> |

#### Loans Payable Related to Investments by Variable Interest Entities in Real Estate Partnerships

The borrowings of certain variable interest entities are comprised of several loans, which are non-recourse to the Company. See Note 6 of the Notes to Consolidated Financial Statements for additional information regarding the entities deemed to be variable interest entities under FIN 46R, which are consolidated by the Company.

Variable interest entities' loans payable at September 30, 2006 and September 30, 2005 are presented below:

|                                    | <u>September 30,</u><br><u>2006</u> | <u>September 30,</u><br><u>2005</u> |
|------------------------------------|-------------------------------------|-------------------------------------|
|                                    | (in 000's)                          |                                     |
| Current portion of loans payable   | \$ 32,787                           | \$ 2,516                            |
| Long-term portion of loans payable | 160,860                             | 142,264                             |
| Total loans payable                | <u>\$193,647</u>                    | <u>\$144,780</u>                    |

VIes' long-term borrowings at September 30, 2006, based on their contractual terms, mature as follows (in 000's):

|                     |                  |
|---------------------|------------------|
| 2008                | \$ 13,158        |
| 2009                | 17,984           |
| 2010                | 17,529           |
| 2011                | 22,394           |
| 2012 and thereafter | 89,795           |
| Total               | <u>\$160,860</u> |

#### **NOTE 11 - DERIVATIVE FINANCIAL INSTRUMENTS:**

The Company makes limited use of derivative financial instruments in certain of its businesses. Certain derivative financial instruments have been used to manage specifically identified interest rate risk at RJBank, while others are used in the conduct of the Company's fixed income business.

The Company uses interest rate swaps as well as futures contracts as part of its fixed income business. These positions are marked to market with the gain or loss and the related interest recorded in Net Trading Profits within the statement of operations for the period. Any collateral exchanged as part of the swap agreement is recorded in Broker Receivables and Payables in the consolidated statement of financial condition for the period. At September 30, 2006 and September 30, 2005, the Company had outstanding derivative contracts with notional amounts of \$2.3 billion and \$1.9 billion, respectively, in interest rate swaps. The notional amount of a derivative contract does not change hands; it is simply used as a reference to calculate payments. Accordingly, the notional amount of the Company's derivative contracts outstanding at September 30, 2006 significantly exceeds the possible losses that could arise from such transactions. The net market value of all open swap positions at September 30, 2006 and September 30, 2005 was \$13 million and \$10 million, respectively.

RJBank uses variable-rate deposits to finance the purchase of certain loan pools that contain debt instruments that are fixed for the first five years of their life. The funding sources expose RJBank to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of its interest payments. To meet this objective, management entered into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps changed the variable-rate cash flow exposure on the funding sources to fixed cash flows. Under the terms of the interest rate swaps, RJBank received variable interest rate payments and made fixed interest rate payments, thereby creating the equivalent of fixed-rate funding. At September 30, 2006 and 2005, RJBank was party to zero and \$11.5 million, respectively, in notional amount of interest rate swap agreements, and had securities and cash of zero and \$0.9 million, respectively, pledged or held as interest-bearing collateral for such agreements.

Changes in the fair value of a derivative that is effective, as defined by SFAS 133, and that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the variability in cash flows of the designated hedged item. Any ineffectiveness resulting from the cash flow hedge is recorded in income or expense at the end of each reporting period. For purposes of the statement of cash flows, any ineffectiveness resulting from the cash flow hedge is subtracted or added back in the reconciliation of net income to cash provided by operating activities at the end of each reporting period. When hedge accounting is discontinued, RJBank continues to carry the derivative at its fair value in the statement of financial condition, and recognizes any changes in its fair value in earnings. For the years ended September 30, 2006, September 30, 2005, and September 24, 2004, RJBank recorded zero, (\$207,767), and \$391,651, respectively, in income (expense) from ineffective cash flow hedges and transition adjustments. The net amount of the existing unrealized losses expected to be reclassified into pretax earnings within the next 12 months was zero at September 30, 2006 and \$100,000 at September 30, 2005.

The Company is exposed to credit losses in the event of nonperformance by the counterparties to its interest rate swap agreements. The Company performs a credit evaluation of counterparties prior to entering into swap transactions. Currently, the Company anticipates that all counterparties will be able to fully satisfy their obligations under those agreements. The Company may require collateral from counterparties to support these obligations as established by the credit threshold specified by the agreement and/or as a result of monitoring the credit standing of the counterparties. The Company is also exposed to interest rate risk related to its interest rate swap agreements. The Company monitors exposure in its derivatives subsidiary daily based on established limits with respect to a number of factors, including interest rate risk, spread, ratio and basis risk and volatility. These exposures are monitored both on a total portfolio basis and separately for selected maturity periods.

**NOTE 12 - INCOME TAXES:**

The provision (benefit) for income taxes consists of the following:

|                    | Year Ended            |                       |                       |
|--------------------|-----------------------|-----------------------|-----------------------|
|                    | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
| (in 000's)         |                       |                       |                       |
| Current provision: |                       |                       |                       |
| Federal            | \$ 102,665            | \$ 78,783             | \$ 71,004             |
| State              | 16,844                | 15,483                | 13,722                |
| International      | 13,379                | 8,231                 | 3,381                 |
|                    | <u>132,888</u>        | <u>102,497</u>        | <u>88,107</u>         |
| Deferred benefit:  |                       |                       |                       |
| Federal            | (3,742)               | (3,058)               | (5,813)               |
| State              | (495)                 | (1,867)               | (5,897)               |
| International      | (927)                 | (647)                 | 149                   |
|                    | <u>(5,164)</u>        | <u>(5,572)</u>        | <u>(11,561)</u>       |
|                    | <u>\$ 127,724</u>     | <u>\$ 96,925</u>      | <u>\$ 76,546</u>      |

The Company's income tax expense differs from the amount computed by applying the statutory federal income tax rate due to the following:

|  | Year Ended            |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
| (in 000's)                                 |                       |                       |                       |
| Provision calculated at statutory rates    | \$ 119,723            | \$ 85,909             | \$ 71,442             |
| State income taxes, net of federal benefit | 10,627                | 8,851                 | 5,085                 |
| Other                                      | (2,626)               | 2,165                 | 19                    |
|  | <u>\$ 127,724</u>     | <u>\$ 96,925</u>      | <u>\$ 76,546</u>      |

U.S. and international components of income before income taxes were as follows:

|                            | Year Ended            |                       |                       |
|----------------------------|-----------------------|-----------------------|-----------------------|
|                            | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
| (in 000's)                 |                       |                       |                       |
| U.S.                       | \$ 308,003            | \$ 230,790            | \$ 196,642            |
| International              | 34,063                | 17,181                | 7,479                 |
| Income before income taxes | <u>\$ 342,066</u>     | <u>\$ 247,971</u>     | <u>\$ 204,121</u>     |

The major deferred tax asset (liability) items, as computed under SFAS 109, are as follows:

|                                       | September 30,<br>2006 | September 30,<br>2005 |
|---------------------------------------|-----------------------|-----------------------|
| (in 000's)                            |                       |                       |
| Deferred tax assets:                  |                       |                       |
| Deferred compensation                 | \$ 56,584             | \$ 49,460             |
| Capital expenditures                  | 7,286                 | 8,719                 |
| Accrued expenses                      | 40,904                | 39,674                |
| Unrealized loss                       | 1,932                 | 252                   |
| Net operating loss carryforward       | 13,496                | 10,487                |
| Other                                 | -                     | 1,617                 |
| <b>Total deferred tax assets</b>      | <b>120,202</b>        | <b>110,209</b>        |
| Deferred tax liabilities:             |                       |                       |
| Aircraft leases                       | (19,796)              | (21,349)              |
| Other                                 | (5,449)               | -                     |
| <b>Total deferred tax liabilities</b> | <b>(25,245)</b>       | <b>(21,349)</b>       |
| <b>Net deferred tax assets</b>        | <b>\$ 94,957</b>      | <b>\$ 88,860</b>      |

The Company has recorded a deferred tax asset at September 30, 2006 and September 30, 2005. The net operating loss carryforwards expire between 2008 and 2016. No valuation allowance as defined by SFAS 109 is required for the years then ended as Management believes that it is more likely than not the deferred tax asset is realizable.

The "American Jobs Creation Act of 2004" provides for a one-time deduction for qualifying repatriations of foreign earnings in either fiscal year 2005 or 2006. The 85% dividends received deduction can result in a lower tax rate if the eligible dividends are reinvested within the limitations and requirements of Internal Revenue Code Section 965. During fiscal year 2006, the Company repatriated \$1.9 million in extraordinary dividends and recorded a tax liability of \$102,000. To the degree that the cumulative undistributed earnings of non-U.S. subsidiaries were permanently invested, no deferred U.S. federal income taxes have been provided. We have provided for U.S. deferred income taxes in the amount of \$2.9 million on undistributed earnings not considered permanently reinvested in our non-U.S. subsidiaries.

**NOTE 13 - COMMITMENTS AND CONTINGENCIES:**

Long-term lease agreements expire at various times through 2014. Minimum annual rentals under such agreements for the succeeding five fiscal years are approximately: \$26,013,000 in 2007, \$21,858,000 in 2008, \$16,860,000 in 2009, \$14,378,000 in 2010, \$8,938,000 in 2011 and \$13,719,000 thereafter. Rental expense incurred under all leases, including equipment under short-term agreements, aggregated \$34,329,000, \$31,949,000 and \$31,396,000 in 2006, 2005 and 2004, respectively.

See Note 7 of the Notes to Consolidated Financial Statements with respect to the Company's interest in certain commercial aircraft leveraged leases.

RJBank has outstanding at any time a significant number of commitments to extend credit or purchase loans. These arrangements are subject to strict credit control assessments and each client's credit worthiness is evaluated on a case-by-case basis. A summary of commitments to extend credit, purchase loans and letters of credit outstanding is as follows:

|   | September 30, 2006 | September 30, 2005 |
|---|--------------------|--------------------|
| (in 000's)                                |                    |                    |
| Standby letters of credit                 | \$ 55,193          | \$ 15,933          |
| Consumer lines of credit                  | 25,772             | 21,326             |
| Commercial lines of credit                | 760,253            | 168,804            |
| Unfunded loan commitments - variable rate | 264,663            | 288,169            |
| Unfunded loan commitments - fixed rate    | 6,412              | 11,402             |

Because many commitments expire without being funded in whole or part, the contract amounts are not estimates of future cash flows.

In the normal course of business, RJBank issues, or participates in the issuance of, financial standby letters of credit whereby it provides an irrevocable guarantee of payment in the event the letter of credit is drawn down by the beneficiary. As of September 30, 2006, \$55.2 million of such letters of credit were outstanding. Of the letters of credit outstanding, \$54.6 million are underwritten as part of a larger corporate credit relationship, and the remaining \$600,000 are fully secured by cash or securities. In the event that a letter of credit is drawn down, RJBank would pursue repayment from the account party under the existing borrowing relationship, or would liquidate collateral, or both. The proceeds from repayment or liquidation of collateral are expected to cover the maximum potential amount of any future payments of amounts drawn down under the existing letters of credit.

At September 30, 2006 and September 30, 2005, no securities were pledged by RJBank as collateral with the FHLB for advances. In lieu of pledging securities as collateral for advances, RJBank provided the FHLB with a lien against RJBank's portfolio of residential mortgage loans.

As of September 30, 2006, RJBank has entered into a \$460 million reverse repurchase agreement with a single counterparty. Although RJBank is exposed to risk that this counterparty may not fulfill its contractual obligation, the risk of default is minimal due to the creditworthiness of the counterparty, collateral received and the short duration of this agreement.

As part of an effort to increase brand awareness, the Company entered into a stadium naming rights contract in July 1998. The contract expires in 2016 and has a 4% annual escalator. Expenses of \$2,914,000, \$2,802,000 and \$2,694,000 were recognized in the fiscal 2006, 2005 and 2004, respectively.

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to such commitments that were open at September 30, 2006 and were subsequently settled had no material effect on the consolidated financial statements as of that date.

The Company utilizes client marginable securities to satisfy deposits with clearing organizations. At September 30, 2006 and September 30, 2005, the Company had client margin securities valued at \$65.2 million and \$93.4 million, respectively, on deposit with a clearing organization.

The Company has committed to lend \$1.7 million to CSS in four equal installments beginning in April 2006, the last of which is due in December 2006. CSS was formed by a group of broker-dealer firms, including the Company, to develop a back-office software system.

The Company has committed a total of \$42.6 million, in amounts ranging from \$200,000 to \$2.0 million, to 40 different independent venture capital or private equity partnerships. As of September 30, 2006, the Company had invested \$29.4 million of that amount and has received \$24.8 million in distributions. Additionally, the Company is the general partner in two internally sponsored private equity limited partnerships to which it has committed \$14 million. Of that amount, the Company had invested \$11.7 million and has received \$5.5 million in distributions as of September 30, 2006.

The Company is the general partner in EIF Funds. These limited partnerships invest in the merchant banking and private equity activities of the Company and other unaffiliated venture capital limited partnerships. The EIF Funds were established as compensation and retention measures for certain qualified key employees of the Company. At September 30, 2006, the Company has \$4.6 million committed to these funds.

At September 30, 2006, the approximate market values of collateral received that can be repledged by the Company, were:

**Sources of collateral (in 000's):**

|  |                    |
|--|--------------------|
| Securities purchased under agreements to resell                  | \$ 313,477         |
| Securities received in securities borrowed vs. cash transactions | 1,071,200          |
| Collateral received for margin loans                             | 1,437,487          |
| <b>Total</b>   | <b>\$2,822,164</b> |

During the year certain collateral was repledged. At September 30, 2006, the approximate market values of this portion of collateral and financial instruments owned that were repledged by the Company, were:

**Uses of collateral and trading securities (in 000's):**

|  |                    |
|--|--------------------|
| Securities purchased under agreements to resell                  | \$ 313,477         |
| Securities received in securities borrowed vs. cash transactions | 1,034,563          |
| Collateral received for margin loans                             | 257,651            |
| <b>Total</b>   | <b>\$1,605,691</b> |

In the normal course of business, certain subsidiaries of the Company act as general partner and may be contingently liable for activities of various limited partnerships. These partnerships engaged primarily in real estate activities. In the opinion of the Company, such liabilities, if any, for the obligations of the partnerships will not in the aggregate have a material adverse effect on the Company's consolidated financial position.

The Company and its subsidiaries maintain one committed and several uncommitted lines of credit denominated in U.S. dollars and one uncommitted line of credit denominated in Canadian dollars. At September 30, 2006, the aggregate domestic lines were \$710 million and total Canadian lines were CDN \$40 million of which CDN \$10.2 million was outstanding. The interest rates for the lines of credit are variable and are based on the Fed Funds rate, LIBOR, and Canadian prime rate. The Company's committed \$200 million line of credit is subject to a 0.125% per annum facility fee. RJBank has \$60 million in FHLB advances outstanding at September 30, 2006, which are comprised of long-term, fixed rate advances. RJBank had \$781 million in credit available from the FHLB at September 30, 2006.

The Company has guaranteed lines of credit for various foreign joint ventures as follows: four lines of credit totaling \$22.5 million in Turkey and one line of credit totaling \$3 million in Argentina. At September 30, 2006, there was an outstanding balance of \$1.1 million on the lines of credit in Turkey and none on the line in Argentina. The Company has also from time to time authorized guarantees for the completion of trades with counterparties in Argentina and Turkey. At September 30, 2006, there were no outstanding guarantees in Turkey and Argentina.

The Company guarantees the existing mortgage debt of RJA of approximately \$67.5 million. The Company may guarantee interest rate swap obligations of RJ Capital Services, Inc. The Company has also committed to lend to or guarantee obligations of RJTCF of up to \$90.0 million upon request, subject to certain limitations as well as annual review and renewal. RJTCF borrows in order to invest in partnerships which purchase and develop properties qualifying for tax credits. These investments in project partnerships are then sold to various tax credit funds, which have third party investors, and for which RJTCF serves as the managing member or general partner. RJTCF typically sells these investments within 90 days of their acquisition, and the proceeds from the sales are used to repay RJTCF's borrowings. Additionally, RJTCF may make short-term loans or advances to project partnerships on behalf of the tax credit funds in which it serves as managing member or general partner. At September 30, 2006, cash funded to invest in either loans or investments in project partnerships was \$28.6 million. In addition, at September 30, 2006, RJTCF is committed to additional future fundings of \$7.6 million related to project partnerships that have not yet been sold to various tax credit funds.

#### **NOTE 14 - LEGAL AND REGULATORY PROCEEDINGS:**

As a result of the extensive regulation of the securities industry, the Company's broker-dealer subsidiaries are subject to regular reviews and inspections by regulatory authorities and self-regulatory organizations, which can result in the imposition of sanctions for regulatory violations, ranging from non-monetary censure to fines and, in serious cases, temporary or permanent suspension from business. In addition, from time to time regulatory agencies and self-regulatory organizations institute investigations into industry practices, which can also result in the imposition of such sanctions.

The Company is a defendant or co-defendant in various lawsuits and arbitrations incidental to its securities business. Like others in the retail securities industry, the Company experienced a significant increase in the number of claims seeking recovery due to portfolio losses in the early 2000's. During the past year, the number of claims has declined to more historic levels.

As previously reported, RJF and Raymond James Financial Services, Inc. ("RJFS") were defendants in a series of lawsuits and arbitrations relating to an alleged mortgage lending program known as the "Premiere 72" program, that was administered by a company owned in part by two individuals who were registered as Financial Advisors with RJFS in Houston. In July 2005, RJFS paid approximately \$24 million in a settlement with approximately 380 claimants in this litigation, representing approximately two-thirds of the outstanding claims. RJFS has settled with an additional 150 claimants for a lump sum of \$18 million. These settlements effectively extinguish the Company's liability with the exception of one remaining lawsuit in federal court involving one claimant family group.

On September 27, 2005, the State of Utah filed a petition for Order of Censure, Suspension of License and Imposition of Fine against RJFS related to the alleged failure to supervise a former Financial Advisor. The Utah Securities Division asked the Division Director to enter an order censuring the Company, suspending its license in Utah for 30 days, ordering a fine of \$100,000 and requiring the engagement of an independent consultant to review its supervisory structure and procedures. In September 2006, RJFS agreed without admitting or denying the State's findings, to a fine of \$100,000.

Raymond James Yatrym Menkul Kyymetler A. S., ("RJY"), the Company's Turkish affiliate, was assessed for the year 2001 approximately US\$6.8 million by the Turkish tax authorities. The authorities applied a significantly different methodology than in the prior year's audit. RJY is vigorously contesting most aspects of this assessment and has filed an appeal with the Turkish tax court. Audits of 2002 through 2004 are anticipated and their outcome is unknown in light of the change in methodology and the pending litigation. The Company has made provision in its consolidated financial statements for its estimate of the reasonable potential exposure for this matter. As of September 30, 2006, RJY had total capital of approximately US\$6.4 million, of which the Company owns approximately 73%.

The Company is contesting the allegations in this and other cases and believes that there are meritorious defenses in each of these lawsuits and arbitrations. In view of the number and diversity of claims against the Company, the number of jurisdictions in which litigation is pending and the inherent difficulty of predicting the outcome of litigation and other claims, the Company cannot state with certainty what the eventual outcome of pending litigation or other claims will be. In the opinion of the Company's management, based on current available information, review with outside legal counsel, and consideration of amounts provided for in the accompanying consolidated financial statements with respect to these matters, ultimate resolution of these matters will not have a material adverse impact on the Company's financial position or results of operations. However, resolution of one or more of these matters may have a material effect on the results of operations in any future period, depending upon the ultimate resolution of those matters and upon the level of income for such period.

**NOTE 15 - CAPITAL TRANSACTIONS:**

At their meeting on February 17, 2006, the Company's Board of Directors declared a 3-for-2 stock split by means of a dividend. The additional shares were distributed on March 22, 2006, to shareholders of record on March 8, 2006. All references in the consolidated financial statements to amounts per share and to the number of shares outstanding have been restated to give retroactive effect to the stock split.

The following table presents information on a monthly basis for purchases of the Company's stock for the quarter ended September 30, 2006:

| Period                                 | Number of<br>Shares Purchased <sup>(1)</sup> | Average<br>Price Per Share |
|--|--|----------------------------|
| July 1, 2006 - July 31, 2006           | -  | -                          |
| August 1, 2006 - August 31, 2006       | -  | -                          |
| September 1, 2006 - September 30, 2006 | 2,251  | \$29.48                    |
| Total                                  | 2,251  | \$29.48                    |

(1) The Company does not have a formal stock repurchase plan. Shares are repurchased at the discretion of management pursuant to prior authorization from the Board of Directors. On May 20, 2004, the Board of Directors authorized purchases of up to \$75 million. Since that date 391,514 shares have been repurchased for a total of \$7.4 million, leaving \$67.6 million available to repurchase shares. Historically the Company has considered such purchases when the price of its stock approaches 1.5 times book value or when employees surrender shares as payment for option exercises. The decision to repurchase shares is subject to cash availability and other factors. During 2006 and 2005, 189,664 and 5,740 shares were repurchased at an average price of \$28.97 and \$30.81, respectively. During the three months ended March 31, 2006, the Company established a trust fund, through its wholly owned Canadian subsidiary, that would enable the trust fund to acquire Company common stock in the open market to be used to settle restricted stock units granted as a retention vehicle for certain employees of the Canadian subsidiary. The only purchases of shares during February were for this trust fund. With the exception of the shares purchased through this trust fund in March 2006, the Company only purchased shares during the balance of the year that were surrendered by employees as a payment for option exercises.

**NOTE 16 - OTHER COMPREHENSIVE INCOME:**

The activity in other comprehensive income and related tax effects are as follows (in 000's):

|   | <u>Sept. 30,<br/>2006</u> | <u>Sept. 30,<br/>2005</u> | <u>Sept. 24,<br/>2004</u> |
|---|---------------------------|---------------------------|---------------------------|
| Net unrealized gain (loss) on available for sale securities, net of tax effect of \$129 in 2006, \$51 in 2005, and (\$67) in 2004                   | \$ 217                    | \$ 79                     | \$ (112)                  |
| Net unrealized gain on interest rate swaps accounted for as cash flow hedges, net of tax effect of \$28 in 2006, \$566 in 2005, and \$1,310 in 2004 | 44                        | 882                       | 2,184                     |
| Net change in currency translations, net of tax effect of \$1,312 in 2006, \$3,078 in 2005, and \$719 in 2004                                       | <u>2,202</u>              | <u>4,796</u>              | <u>1,199</u>              |
| Other comprehensive income  | <u>\$ 2,463</u>           | <u>\$ 5,757</u>           | <u>\$ 3,271</u>           |

The components of accumulated other comprehensive income, net of income taxes (in 000's):

|  | <u>Sept. 30,<br/>2006</u> | <u>Sept. 30,<br/>2005</u> |
|--|---------------------------|---------------------------|
| Net unrealized gain on securities available for sale                         | \$ 403                    | \$ 186                    |
| Net unrealized loss on interest rate swaps accounted for as cash flow hedges | -                         | (44)                      |
| Currency translations  | <u>11,692</u>             | <u>9,490</u>              |
| Accumulated other comprehensive income, net of income taxes                  | <u>\$ 12,095</u>          | <u>\$ 9,632</u>           |

**NOTE 17 - EMPLOYEE BENEFIT PLANS:**

The Company's profit sharing plan and employee stock ownership plan provide certain death, disability or retirement benefits for all employees who meet certain service requirements. The plans are noncontributory. Contributions by the Company, if any, are determined annually by the Company's Board of Directors on a discretionary basis and are recognized as compensation cost throughout the year. Benefits become fully vested after seven years of qualified service. All shares owned by the ESOP are included in earnings per share calculations. Cash dividends paid to the ESOP are reflected as a reduction of retained earnings. The number of shares of RJF common stock held by the ESOP at September 30, 2006 and 2005 was approximately 5,370,000 and 5,480,000, respectively. The Company also offers a plan pursuant to section 401(k) of the Internal Revenue Code, which provides for the Company to match 100% of the first \$500 and 50% of the next \$500 of compensation deferred by each participant annually. The Company's Long Term Incentive Plan ("LTIP") is a non-qualified deferred compensation plan that provides benefits to employees who meet certain compensation or production requirements. The Company has purchased and holds life insurance on the lives of most of those employees participating in the LTIP, to earn a competitive rate of return for participants and to provide a source of funds available to satisfy its obligations under this plan. Contributions to the qualified plans and the LTIP contribution for management are made in amounts approved annually by the Board of Directors. Compensation expense includes aggregate contributions to these plans of \$36,912,285, \$26,872,875, and \$24,009,740 for fiscal years 2006, 2005, and 2004, respectively.

## Stock-Based Compensation Plans

At September 30, 2006, the Company had multiple stock-based employee compensation plans, which are described below. The Company issues new shares under all plans approved by shareholders. Effective October 1, 2005, the Company adopted SFAS No. 123R, "Share-Based Payment". The adoption of this statement did not have a material impact on the Company's consolidated financial statements given that it adopted the fair value recognition provisions of SFAS No. 123 effective September 28, 2002 using the modified prospective application transition method within the provisions of SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". Prior to the adoption of SFAS No. 123R, benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. SFAS No. 123R requires excess tax benefits to be reported as a financing cash inflow rather than as a reduction of taxes paid, as part of operating cash flows.

### Fixed Stock Option Plans

The Company has two qualified and two non-qualified fixed stock option plans available for grants to employees and members of the Company's Board of Directors. Under the 2002 Incentive Stock Option Plan, one of the Company's qualified plans, the Company may grant options to its management personnel for up to 9,000,000 shares of common stock. The 2002 Plan was established to replace, on substantially the same terms and conditions, the 1992 Plan. As of September 30, 2006, the 1992 Plan still has options outstanding. Options are granted to key administrative employees and Financial Advisors of Raymond James & Associates, Inc. who achieve certain gross commission levels. Options are exercisable in the 36th to 72nd months following the date of grant and only in the event that the grantee is an employee of the Company at that time, disabled or recently retired.

As noted above, the Company has two non-qualified fixed stock option plans. Under the first of those plans, the Company may grant up to 854,298 shares of common stock to the Company's outside directors. Options vest over a three-year period from grant date provided that the director is still serving on the Board of the Company. Under the Company's second non-qualified stock option plan, the Company may grant up to 2,531,250 shares of common stock to key management personnel. Option terms are specified in individual agreements and expire on a date no later than the tenth anniversary of the grant date. Under all fixed stock option plans, the exercise price of each option equals the market price of the Company's stock on the date of grant.

The Company's net income for the years ended September 30, 2006, September 30, 2005, and September 24, 2004 includes \$5.6 million, \$6.2 million, and \$7.4 million, respectively, of compensation costs and \$281,000, \$293,000, and \$389,000, respectively of income tax benefits related to the Company's four fixed stock option plans available for grants to employees and members of its Board of Directors.

These amounts may not be representative of future stock-based compensation expense since the estimated fair value of stock options is amortized to expense straight line over the vesting period and additional options may be granted in future years. The fair value of each fixed option grant for these plans is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for stock option grants in years ended 2006, 2005, and 2004:

|                         | 2006    | 2005    | 2004    |
|-------------------------|---------|---------|---------|
| Dividend Yield          | 1.19%   | 1.10%   | 1.10%   |
| Expected Volatility     | 29.38%  | 38.56%  | 36.27%  |
| Risk-free Interest Rate | 4.41%   | 3.69%   | 2.89%   |
| Expected Lives          | 4.9 yrs | 5.1 yrs | 5.2 yrs |

The dividend yield assumption is based on the Company's current declared dividend as a percentage of the stock price. The expected volatility assumption for the current period is based on the Company's historical stock price and is a weighted average combining (1) the volatility of the most recent year, (2) the volatility of the most recent time period equal to the expected lives assumption, and (3) the annualized volatility of the price of the Company's stock since the late 1980's. The expected volatility used by the Company in the prior periods presented was based on the annualized volatility of the price of the Company's stock since the late 1980's. The risk-free interest rate assumption is based on the U.S. Treasury yield curve in effect at the time of grant of the options. The expected lives assumption is based on the average of (1) the assumption that all outstanding options will be exercised at the midpoint between their vesting date and full contractual term and (2) the assumption that all outstanding options will be exercised at their full contractual term.

A summary of option activity of the Company's four fixed stock option plans available for grants to employees and members of its Board of Directors for the year ended September 30, 2006 is presented below:

|                                   | Options For<br>Shares | Weighted<br>Average<br>Exercise<br>Price (\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value (\$) |
|-----------------------------------|-----------------------|---|---|--------------------------------------|
| Outstanding at October 1, 2005    | 5,277,204             | \$15.06                                       | -   | -                                    |
| Granted                           | 1,628,822             | 24.64   | -   | -                                    |
| Exercised                         | (1,304,170)           | 14.24   | -   | -                                    |
| Canceled                          | (234,733)             | 18.64   | -   | -                                    |
| Expired                           | (12,800)              | 15.09   | -   | -                                    |
| Outstanding at September 30, 2006 | 5,354,323             | \$18.02                                       | 2.65  | \$60,106,036                         |
| Exercisable at September 30, 2006 | 907,458               | \$13.99                                       | 0.65  | \$13,835,323                         |

As of September 30, 2006, there was \$13.2 million of total unrecognized compensation cost related to stock options for these plans. These costs are expected to be recognized over a weighted average period of approximately three years. The weighted average grant date fair value of stock options granted under these plans during the years ended September 30, 2006, September 30, 2005 and September 24, 2004 was \$7.36 per share, \$6.44 per share and \$5.60 per share, respectively. The total intrinsic value of stock options exercised for these plans during the years ended September 30, 2006, September 30, 2005 and September 24, 2004 was \$15.3 million, \$11.2 million and \$5.1 million, respectively. The total grant date fair value of stock options vested for these plans during the years ended September 30, 2006, September 30, 2005 and September 24, 2004 was \$5.4 million, \$7.0 million and \$3.8 million, respectively.

Cash received from stock option exercises for these plans for the year ended September 30, 2006 was \$18.1 million. The actual tax benefit realized for the tax deductions from option exercise for these stock option plans was \$594,000 for the year ended September 30, 2006.

### Restricted Stock Plan

Under the 2005 Restricted Stock Plan the Company is authorized to issue up to 2,250,000 restricted stock units or restricted shares of common stock to employees and independent contractors. The 2005 Plan was established to replace, on substantially the same terms and conditions, the 1999 Plan. During the three months ended March 31, 2006, this plan was amended to allow the issuance of restricted stock units as retention measures for certain employees of the Company. In addition, the Company, through its wholly owned Canadian subsidiary, established a trust fund which is associated with the 2005 Plan. This trust fund was established and funded to enable the trust fund to acquire Company common stock in the open market to be used to settle restricted stock units granted as a retention vehicle for certain employees of the Canadian subsidiary. Awards under this plan may be granted by the Company in connection with initial employment or under various retention plans for individuals who are responsible for a contribution to the management, growth, and/or profitability of the Company. These awards are forfeitable in the event of termination other than for death, disability or retirement. The compensation cost is recognized over the vesting period of the awards and is calculated as the market value of the awards on the date of grant. The following activity occurred during the year ended September 30, 2006:

|                                 | Shares/Units | Weighted<br>Average<br>Grant Date<br>Fair Value (\$) |
|---------------------------------|--------------|--|
| Nonvested at October 1, 2005    | 1,022,043    | \$16.02  |
| Granted                         | 1,175,197    | 24.76  |
| Vested                          | (285,464)    | 13.76  |
| Canceled                        | (55,907)     | 19.99  |
| Nonvested at September 30, 2006 | 1,855,869    | \$21.77  |

The Company's net income for the year ended September 30, 2006 includes \$7.5 million of compensation costs and \$2.9 million of income tax benefits related to the Company's Restricted Stock Plan. The Company's net income for the years ended September 30, 2005 and September 24, 2004 includes \$3.7 million and 3.0 million, respectively, of compensation costs and \$1.4 million and \$1.1 million, respectively, of income tax benefits related to this plan.

As of September 30, 2006, there was \$27.4 million of total unrecognized compensation cost related to grants under the Company's Restricted Stock Plan. These costs are expected to be recognized over a weighted average period of approximately 3.7 years. The total fair value of shares vested under this plan during the year ended September 30, 2006 was \$3.9 million.

### Employee Stock Purchase Plan

Under the 2003 Employee Stock Purchase Plan, the Company is authorized to issue up to 3,375,000 shares of common stock to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the Plan, employees can choose each year to have up to 20% of their annual compensation specified to purchase the Company's common stock. Share purchases in any calendar year are limited to the lesser of 1,000 shares or shares with a market value of \$25,000. The purchase price of the stock is 85% of the market price on the day prior to the purchase date. Under the Plan, and its expired predecessor plan, the Company sold approximately 379,000, 493,000 and 498,000 shares to employees during the years ended September 30, 2006, September 30, 2005 and September 24, 2004, respectively. The compensation cost is calculated as the value of the 15% discount from market value and was \$1.6 million, \$1.4 million and \$1.3 million during the years ended September 30, 2006, September 30, 2005 and September 24, 2004, respectively.

### Stock Bonus Plan

The Company's 1999 Stock Bonus Plan authorizes the Company to issue up to 2,250,000 restricted shares to officers and certain other employees in lieu of cash for 10% to 20% of annual bonus amounts in excess of \$250,000. The determination of the number of shares to be granted may encompass a discount from market value at the discretion of the Compensation Committee of the Board of Directors. Under the plan the shares are generally restricted for a three year period, during which time the shares are forfeitable in the event of voluntary termination. The compensation cost is recognized over the three-year vesting period based on the market value of the shares on the date of grant. The following activity occurred during the year ended September 30, 2006:

|                                 | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value (\$)</b> |
|---------------------------------|---------------|--|
| Nonvested at October 1, 2005    | 862,026       | \$17.39  |
| Granted                         | 413,154       | 25.18  |
| Vested                          | (266,043)     | 13.93  |
| Canceled                        | (19,191)      | 21.36  |
| Nonvested at September 30, 2006 | 989,946       | \$21.49  |

The Company's net income for the year ended September 30, 2006 includes \$5.4 million of compensation costs and \$2.0 million of income tax benefits related to the Company's Stock Bonus Plan. The Company's net income for the years ended September 30, 2005 and September 24, 2004 includes \$3.5 million and \$2.7 million, respectively, of compensation costs and \$1.3 million and \$1.0 million, respectively, of income tax benefits related to this plan.

As of September 30, 2006, there was \$9.3 million of total unrecognized compensation cost related to grants under the Company's Stock Bonus Plan. These costs are expected to be recognized over a weighted average period of approximately 1.4 years. The total fair value of shares vested under this plan during the fiscal year ended September 30, 2006 was \$3.7 million.

### Employee Investment Funds

Certain key employees of the Company participate in the Raymond James Employee Investment Funds I and II, which are limited partnerships that invest in the merchant banking and venture capital activities of the Company and other unaffiliated venture capital limited partnerships. The Company makes non-recourse loans to these employees for two thirds of the purchase price per unit. The loans and applicable interest are to be repaid based solely on the distributions from the funds.

### NOTE 18 - NON-EMPLOYEE STOCK-BASED COMPENSATION:

Under one of its non-qualified fixed stock option plans, the Company may grant stock options to its independent contractor Financial Advisors. The Company may grant up to 5,126,000 shares of common stock to independent contractor Financial Advisors under this plan. Options are exercisable five years after grant date provided that the Financial Advisors are still associated with the Company. Under this fixed stock option plan, the exercise price of each option equals the market price of the Company's stock on the date of grant.

Prior to fiscal 2006, the Company valued stock options awarded to its independent contractor Financial Advisors at fair value on the date of grant and amortized these options over their expected service period in accordance with SFAS No. 123. However, after further analysis on the application of SFAS No. 123R, the SEC guidance contained in Staff Accounting Bulletin ("SAB") No. 107, and Emerging Issues Task Force ("EITF") No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services", to these non-employee awards, the Company concluded that absent a specific performance commitment, these grants are to be measured at their vesting date fair value and their fair value estimated at reporting dates prior to that time. The compensation expense recognized each period should be based on the most recent estimated value. The Company's prior recording of compensation expenses for these grants were an estimate based on grant date fair value. The current year includes the effect of the change for the current year. The effect on prior years was not material. Further, in accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," the Company classifies these non-employee awards as liabilities at fair value upon vesting, with changes in fair value reported in earnings until these awards are exercised or forfeited.

The Company's net income for the years ended September 30, 2006, September 30, 2005, and September 24, 2004 includes \$9.7 million, \$2.1 million, and \$1.9 million, respectively, of compensation costs and \$3.7 million, \$804,000, and \$725,000, respectively net of income tax benefits related to option grants to its independent contractor Financial Advisors.

The fair value of each fixed option grant awarded to an independent contractor Financial Advisor is estimated on the date of grant and periodically revalued using the Black-Scholes option pricing model with the following weighted average assumptions used for fiscal years ended 2006, 2005, and 2004:

|                         | 2006     | 2005     | 2004     |
|-------------------------|----------|----------|----------|
| Dividend Yield          | 1.11%    | 1.10%    | 1.10%    |
| Expected Volatility     | 30.89%   | 38.20%   | 42.55%   |
| Risk-free Interest Rate | 4.62%    | 3.37%    | 2.21%    |
| Expected Lives          | 2.76 yrs | 2.56 yrs | 2.82 yrs |

The dividend yield assumption is based on the Company's current declared dividend as a percentage of the stock price. The expected volatility assumption for the current period is based on the Company's historical stock price and is a weighted average combining (1) the volatility of the most recent year, (2) the volatility of the most recent time period equal to the expected lives assumption, and (3) the annualized volatility of the price of the Company's stock since the late 1980's. The expected volatility used by the Company in the prior periods presented was based on the annualized volatility of the price of the Company's stock since the late 1980's. The risk-free interest rate assumption is based on the U.S. Treasury yield curve in effect at each point in time the options are valued. The expected lives assumption is based on the difference between the option's vesting date plus 90 days (the average exercise period) and the date of the current reporting period.

A summary of option activity of the Company's fixed stock option plan under which awards are granted to its independent contractor Financial Advisors for the year ended September 30, 2006 is presented below:

|                                   | Options For<br>Shares | Weighted<br>Average<br>Exercise<br>Price (\$) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value (\$) |
|-----------------------------------|-----------------------|---|---|--------------------------------------|
| Outstanding at October 1, 2005    | 1,772,967             | \$14.69                                       | -   | -                                    |
| Granted                           | 427,538               | 21.40   | -   | -                                    |
| Exercised                         | (441,552)             | 13.41   | -   | -                                    |
| Canceled                          | (69,403)              | 16.67   | -   | -                                    |
| Expired                           | (2,225)               | 16.88   | -   | -                                    |
| Outstanding at September 30, 2006 | 1,687,325             | \$16.64                                       | 3.04  | \$21,262,456                         |
| Exercisable at September 30, 2006 | 112,775               | \$15.49                                       | 0.25  | \$1,550,578                          |

As of September 30, 2006, there was \$8.1 million of total unrecognized compensation cost related to unvested stock options granted to its independent contractor Financial Advisors based on estimated fair value at that date. These costs are expected to be recognized over a weighted average period of approximately three years. The weighted average grant date fair value of stock options granted under this plan during the years ended September 30, 2006, September 30, 2005 and September 24, 2004 was \$11.87 per share, \$9.51 per share and \$5.72 per share, respectively. The total intrinsic value of stock options exercised for this plan during the years ended September 30, 2006, September 30, 2005 and September 24, 2004 was \$5.6 million, \$2.7 million and \$1.1 million, respectively. The total estimated fair value of stock options vested for this plan during the years ended September 30, 2006, September 30, 2005 and September 24, 2004 was \$4.1 million, \$3.5 million and \$1.1 million, respectively.

Cash received from stock option exercises for this plan for the year ended September 30, 2006 was \$5.9 million. The actual tax benefit realized for the tax deductions from option exercise of awards to its independent contractor Financial Advisors was \$2.1 million for the year ended September 30, 2006.

**NOTE 19 - REGULATIONS AND CAPITAL REQUIREMENTS:**

Certain broker-dealer subsidiaries of the Company are subject to the requirements of the Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934. RJA, a member firm of the New York Stock Exchange (“NYSE”), is also subject to the rules of the NYSE, whose requirements are substantially the same. Rule 15c3-1 requires that aggregate indebtedness, as defined, not to exceed fifteen times net capital, as defined. Rule 15c3-1 also provides for an “alternative net capital requirement”, which RJA, RJFS and Heritage Fund Distributors, Inc. (“HFD”) have elected. It requires that minimum net capital, as defined, be equal to the greater of \$250,000 or two percent of Aggregate Debit Items arising from client transactions. The NYSE may require a member firm to reduce its business if its net capital is less than four percent of Aggregate Debit Items and may prohibit a member firm from expanding its business and declaring cash dividends if its net capital is less than five percent of Aggregate Debit Items. The net capital position of RJA at September 30, 2006 and September 30, 2005 was as follows:

|   | September 30,<br>2006 | September 30,<br>2005 |
|---|-----------------------|-----------------------|
| <b>Raymond James &amp; Associates, Inc.:</b>      | (\$ in 000's)         |                       |
| (alternative method elected)                      |                       |                       |
| Net capital as a percent of Aggregate Debit Items | 27.58%                | 27.8%                 |
| Net capital                                       | \$ 369,443            | \$ 372,615            |
| Less: required net capital                        | (26,793)              | (26,804)              |
| Excess net capital                                | <u>\$ 342,650</u>     | <u>\$ 345,811</u>     |

At September 30, 2006 and September 30, 2005, RJFS had no Aggregate Debit Items and therefore the minimum net capital of \$250,000 was applicable. The net capital position of RJFS at September 30, 2006 and September 30, 2005 was as follows:

|  | September 30,<br>2006 | September 30,<br>2005 |
|--|-----------------------|-----------------------|
| <b>Raymond James Financial Services, Inc.:</b> | (in 000's)            |                       |
| (alternative method elected)                   |                       |                       |
| Net capital                                    | \$ 41,200             | \$ 41,851             |
| Less: required net capital                     | (250)                 | (250)                 |
| Excess net capital                             | <u>\$ 40,950</u>      | <u>\$ 41,601</u>      |

At September 30, 2006, HFD had no Aggregate Debit Items and therefore the minimum net capital of \$250,000 was applicable. The net capital position of HFD at September 30, 2006 was as follows:

|   | <b>September 30,<br/>2006</b> |
|---|-------------------------------|
|   | <b>(in 000's)</b>             |
| <b>Heritage Fund Distributors, Inc.</b> |                               |
| (alternative method elected)            |                               |
| Net capital                             | \$ 1,669                      |
| Less: required net capital              | (250)                         |
| Excess net capital                      | <u>\$ 1,419</u>               |

RJ Ltd. is subject to the Minimum Capital Rule (By-Law No. 17 of the Investment Dealers Association ("IDA")) and the Early Warning System (By-Law No. 30 of the IDA). The Minimum Capital Rule requires that every member shall have and maintain at all times Risk Adjusted Capital greater than zero calculated in accordance with Form 1 (Joint Regulatory Financial Questionnaire and Report) and with such requirements as the Board of Directors of the IDA may from time to time prescribe. Insufficient Risk Adjusted Capital may result in suspension from membership in the stock exchanges or the IDA.

The Early Warning System is designed to provide advance warning that a member firm is encountering financial difficulties. This system imposes certain sanctions on members who are designated in Early Warning Level 1 or Level 2 according to their capital, profitability, liquidity position, frequency of designation or at the discretion of the IDA. Restrictions on business activities and capital transactions, early filing requirements, and mandated corrective measures are sanctions that may be imposed as part of the Early Warning System. RJ Ltd. was not in Early Warning Level 1 or Level 2 at September 30, 2006 or September 30, 2005.

The Risk Adjusted Capital of RJ Ltd. was CDN \$42,841,000 and CDN \$25,482,000 September 30, 2006 and September 30, 2005, respectively.

RJBank is subject to various regulatory and capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, RJBank must meet specific capital guidelines that involve quantitative measures of RJBank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. RJBank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require RJBank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes that, as of September 30, 2006 RJBank meets all capital adequacy requirements to which it is subject.

As of September 30, 2006, the most recent notification from the Office of Thrift Supervision categorized RJBANK as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized”, RJBANK must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed RJBANK’s capitalization.

|  | Actual     |       | Requirement for capital adequacy purposes |       | To be well capitalized under prompt corrective action provisions |       |
|--|------------|-------|---|-------|--|-------|
|  | Amount     | Ratio | Amount                                    | Ratio | Amount   | Ratio |
| (\$ in 000's)                            |            |       |   |       |  |       |
| As of September 30, 2006:                |            |       |   |       |  |       |
| Total capital (to risk-weighted assets)  | \$ 219,339 | 12.0% | \$146,716                                 | 8.0%  | \$183,396  | 10.0% |
| Tier I capital (to risk-weighted assets) | 196,415    | 10.7% | 73,358                                    | 4.0%  | 110,037  | 6.0%  |
| Tier I capital (to average assets)       | 196,415    | 6.4%  | 122,975                                   | 4.0%  | 153,719  | 5.0%  |
| As of September 30, 2005:                |            |       |   |       |  |       |
| Total capital (to risk-weighted assets)  | \$ 173,466 | 24.9% | \$55,685                                  | 8.0%  | \$69,606   | 10.0% |
| Tier I capital (to risk-weighted assets) | 165,873    | 23.8% | 27,842                                    | 4.0%  | 41,764   | 6.0%  |
| Tier I capital (to average assets)       | 165,873    | 12.6% | 52,628                                    | 4.0%  | 65,785   | 5.0%  |

**NOTE 20 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:**

In the normal course of business, the Company purchases and sells securities as either principal or agent on behalf of its clients. If either the client or counterparty fails to perform, the Company may be required to discharge the obligations of the nonperforming party. In such circumstances, the Company may sustain a loss if the market value of the security or futures contract is different from the contract value of the transaction.

The Company also acts as an intermediary between broker-dealers and other financial institutions whereby the Company borrows securities from one broker-dealer and then lends them to another. Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced and received in connection with the transactions. The Company measures the market value of the securities borrowed and loaned against the cash collateral on a daily basis. The market value of securities borrowed and securities loaned was \$1,034,563,000 and \$1,197,215,000, respectively, at September 30, 2006 and \$1,049,897,000 and \$1,081,328,000, respectively, at September 30, 2005. The contract value of securities borrowed and securities loaned was \$1,068,102,000 and \$1,235,104,000, respectively, at September 30, 2006 and \$1,079,849,000 and \$1,115,595,000, respectively, at September 30, 2005. Additional cash is obtained as necessary to ensure such transactions are adequately collateralized. If another party to the transaction fails to perform as agreed (for example failure to deliver a security or failure to pay for a security), the Company may incur a loss if the market value of the security is different from the contract amount of the transaction.

The Company has also loaned, to brokers-dealers and other financial institutions, securities owned by clients and others for which it has received cash or other collateral. If a borrowing institution or broker-dealer does not return a security, the Company may be obligated to purchase the security in order to return it to the owner. In such circumstances, the Company may incur a loss equal to the amount by which the market value of the security on the date of nonperformance exceeds the value of the collateral received from the financial institution or the broker or dealer.

The Company has sold securities that it does not currently own, and will therefore, be obligated to purchase such securities at a future date. The Company has recorded \$94 million and \$135 million at September 30, 2006 and September 30, 2005, respectively, which represents the market value of the related securities at such dates. The Company is subject to loss if the market price of those securities not covered by a hedged position increases subsequent to fiscal year end. The Company utilizes short government obligations and equity securities to economically hedge long proprietary inventory positions. At September 30, 2006, the Company had \$31,636,000 in short government obligations, \$34,023,000 in short agency securities and \$19,068,000 in short equity securities, which represented hedge positions. At September 30, 2005, the Company had \$99,549,000 in short government obligations and \$30,256,000 in short equity securities which represented hedge positions.

The Company enters into security transactions involving forward settlement. The Company has recorded transactions with contract values of \$2,304,629,000 and \$1,623,208,000 and market values of \$2,297,824,000 and \$1,612,514,000 as of September 30, 2006 and September 30, 2005, respectively. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular financial instrument. The Company's exposure to market risk is determined by a number of factors, including the duration, size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility.

The majority of the Company's transactions, and consequently, the concentration of its credit exposure is with clients, broker-dealers and other financial institutions in the U.S. These activities primarily involve collateralized arrangements and may result in credit exposure in the event that the counterparty fails to meet its contractual obligations. The Company's exposure to credit risk can be directly impacted by volatile securities markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the counterparties' financial condition and credit ratings. The Company monitors collateral levels on a daily basis for compliance with regulatory and internal guidelines and requests changes in collateral levels as appropriate.

**NOTE 21 - EARNINGS PER SHARE:**

The following table presents the computation of basic and diluted earnings per share (in 000's, except per share amounts):

|   | Year Ended            |                       |                       |
|---|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
| Net income  | \$ 214,342            | \$ 151,046            | \$ 127,575            |
| Weighted average common shares outstanding during the period*                                       | 112,614               | 110,217               | 110,093               |
| Dilutive effect of stock options and awards (1)*  | 3,124                 | 2,831                 | 1,510                 |
| Weighted average diluted common shares (1)*   | 115,738               | 113,048               | 111,603               |
| Net income per share - basic*   | \$ 1.90               | \$ 1.37               | \$ 1.16               |
| Net income per share - diluted (1)*   | \$ 1.85               | \$ 1.33               | \$ 1.14               |
| Securities excluded from weighted average common shares because their effect would be antidilutive* | 0                     | 108                   | 1,620                 |

\* Gives effect to the three-for-two stock split paid on March 22, 2006.

(1) Diluted earnings per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include stock options, units and awards.

**NOTE 22 - SEGMENT ANALYSIS:**

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company currently operates through the following seven business segments: Private Client Group; Capital Markets; Asset Management; RJBANK; Emerging Markets; Stock Loan/Borrow and various corporate investments combined in the "Other" segment. The business segments are based upon factors such as the services provided and the distribution channels served and are consistent with how the Company assesses performance and determines how to allocate resources throughout the Company and its subsidiaries. The financial results of the Company's segments are presented using the same policies as those described in Note 1, "Summary of Significant Accounting Policies". Segment data includes charges allocating corporate overhead and benefits to each segment. Intersegment revenues, charges, receivables and payables are eliminated between segments upon consolidation.

The Private Client Group segment includes the retail branches of the Company's broker-dealer subsidiaries located throughout the U.S., Canada and the United Kingdom. These branches provide securities brokerage services including the sale of equities, mutual funds, fixed income products and insurance products to their individual clients. The segment includes net interest earnings on client margin loans and cash balances. Additionally, this segment includes the correspondent clearing services that the Company provides to other broker-dealer firms.

The Capital Markets segment includes institutional sales and trading in the U.S., Canada and Europe. It provides securities brokerage, trading, and research services to institutions with an emphasis on the sale of U.S. and Canadian equities and fixed income products. This segment also includes the Company's management of and participation in underwritings, merger and acquisition services, public finance activities, and the operations of Raymond James Tax Credit Funds.

The Asset Management segment includes investment portfolio management services of Eagle Asset Management, Inc., Awad Asset Management, Inc., and Raymond James Consulting Services (RJA's asset management services division), mutual fund management by Heritage Asset Management, Inc., private equity management by Raymond James Capital, Inc. and RJ Ventures, LLC, and trust services of Raymond James Trust Company and Raymond James Trust Company West. In addition to the asset management services noted above, this segment also offers fee-based programs to clients who have contracted for portfolio management services from outside money managers.

RJBANK is a separate segment, which provides consumer, residential, and commercial loans, as well as FDIC-insured deposit accounts to clients of the Company's broker-dealer subsidiaries and to the general public.

The Emerging Markets segment includes various joint ventures in Argentina, India, Turkey, and Uruguay. These joint ventures operate in securities brokerage, investment banking and asset management.

The Stock Loan/Borrow segment involves the borrowing and lending of securities from and to other broker-dealers, financial institutions and other counterparties, generally as an intermediary.

The Other segment includes various investment and corporate activities of the Company.

In fiscal year 2005, the Company adopted EITF No. 04-10, "Determining Whether to Aggregate Operating Segments that do not meet the Quantitative Thresholds". As a result of the adoption of this EITF, three segments were segregated from the previously reported Other segment: Emerging Markets, Stock Loan/Borrow, and Other. Reclassifications have been made in the segment disclosure for fiscal year 2004 to conform to this presentation.

Information concerning operations in these segments of business is as follows (in 000's):

|  | Year ended            |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
|  | (000's)               |                       |                       |
| <b>Revenues:</b>                                 |                       |                       |                       |
| Private Client Group                             | \$ 1,679,813          | \$ 1,397,578          | \$ 1,202,368          |
| Capital Markets                                  | 487,419               | 455,151               | 400,787               |
| Asset Management                                 | 200,124               | 171,916               | 148,160               |
| RJBank   | 114,692               | 45,448                | 28,104                |
| Emerging Markets                                 | 55,263                | 38,768                | 27,675                |
| Stock Loan/Borrow                                | 59,947                | 31,876                | 16,372                |
| Other  | 35,499                | 16,260                | 6,310                 |
| <b>Total</b>                                     | <b>\$ 2,632,757</b>   | <b>\$ 2,156,997</b>   | <b>\$ 1,829,776</b>   |
| <b>Income Before Provision for Income Taxes:</b> |                       |                       |                       |
| Private Client Group                             | \$ 168,519            | \$ 102,245            | \$ 107,122            |
| Capital Markets                                  | 78,221                | 77,333                | 57,910                |
| Asset Management                                 | 48,095                | 40,841                | 27,875                |
| RJBank   | 16,003                | 14,204                | 8,824                 |
| Emerging Markets                                 | 2,857                 | 5,927                 | 4,304                 |
| Stock Loan/Borrow                                | 8,001                 | 5,962                 | 2,135                 |
| Other  | 20,370                | 1,459                 | (4,049)               |
| <b>Pre- Tax Income</b>                           | <b>\$ 342,066</b>     | <b>\$ 247,971</b>     | <b>\$ 204,121</b>     |

The following table presents the Company's total assets on a segment basis:

|                        | September 30,<br>2006 | September 30,<br>2005 |
|------------------------|-----------------------|-----------------------|
|                        | (000's)               |                       |
| <b>Total Assets:</b>   |                       |                       |
| Private Client Group * | \$ 5,370,018          | \$ 4,538,535          |
| Capital Markets **     | 1,369,479             | 1,032,815             |
| Asset Management       | 76,684                | 74,418                |
| RJBank                 | 3,120,840             | 1,327,675             |
| Emerging Markets       | 58,950                | 91,550                |
| Stock Loan/Borrow      | 1,250,857             | 1,147,314             |
| Other                  | 269,822               | 156,949               |
| <b>Total</b>           | <b>\$ 11,516,650</b>  | <b>\$ 8,369,256</b>   |

\* Includes \$46 million of goodwill allocated pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets".

\*\* Includes \$17 million of goodwill allocated pursuant to SFAS No. 142.

The Company has operations in the U.S., Canada, Europe and joint ventures in India, Turkey, Argentina and Uruguay. Substantially all long-lived assets are located in the U.S. The following table represents revenue by country for the years indicated (in 000's).

|                  | Year ended            |                       |                       |
|------------------|-----------------------|-----------------------|-----------------------|
|                  | September 30,<br>2006 | September 30,<br>2005 | September 24,<br>2004 |
|                  | (000's)               |                       |                       |
| <b>Revenues:</b> |                       |                       |                       |
| United States    | \$ 2,309,697          | \$ 1,912,577          | \$ 1,651,474          |
| Canada           | 222,365               | 162,525               | 115,880               |
| Europe           | 52,489                | 46,432                | 39,890                |
| Other            | 48,206                | 35,463                | 22,532                |
| <b>Total</b>     | <b>\$ 2,632,757</b>   | <b>\$ 2,156,997</b>   | <b>\$ 1,829,776</b>   |

The Company has \$10.4 million invested in emerging market joint ventures, which carry greater risk than amounts invested in developed markets.

**NOTE 23 - REVISION TO 2005 AND 2004 CONSOLIDATED STATEMENTS OF CASH FLOWS:**

Certain amounts in the Company's 2005 and 2004 Consolidated Statements of Cash Flows related to variable interest entities have been reclassified between operating, investing and financing activities to comply with SFAS No. 95, "Statement of Cash Flows".

The Company's previous presentation was to classify the cash flows from debt financing activities of the variable interest entities related to investments in real estate partnerships which it consolidates (see Note 6 of the Notes to Consolidated Financial Statements for further information) as financing activities. The cash flows pertaining to the remaining activities of these variable interest entities, including equity contributions to these entities by unrelated investor members, were classified as operating activities. However, upon further review of the application of SFAS No. 95 to the activities of these variable interest entities, the Company deemed the following cash flow reclassifications were appropriate (see table below).

For the year ended September 30, 2005, \$75.9 million of cash previously classified as used in operating activities was reclassified to investing activities to reflect the cash flow used for investments in real estate partnerships held by variable interest entities. Approximately \$46.3 million of cash used in financing activities was reclassified to investing activities to reflect the cash flow used for loans made to unrelated investor members in real estate related variable interest entities. Minority interest of \$32.1 million related to the capital contributed by outside investors to variable interest entities in real estate partnerships was reclassified from operating activities to financing activities. Cash acquired of \$20.8 million related to the Company's initial consolidation of variable interest entities related to investments in real estate partnerships was also reclassified from operating activities to a separate line item. In addition, non-cash assets of \$43.2 million and non-cash loans payable of \$19.7 million were added upon the initial consolidation of these variable interest entities.

For the year ended September 24, 2004, \$22.6 million of cash previously classified as used in operating activities was reclassified to investing activities to reflect the cash flow used for investments in real estate partnerships held by variable interest entities. Minority interest of \$4.0 million related to the capital contributed by outside investors to variable interest entities in real estate partnerships was reclassified from operating activities to financing activities.

The Company also reclassified certain amounts related to repurchase agreements used for trading purposes from cash and cash equivalents to securities purchased under agreements to resell on its 2005 and 2004 Consolidated Statements of Financial Condition and related cash flow activity on its 2005 and 2004 Consolidated Statements of Cash Flows (see table below).

A summary of the effects of the reclassifications are as follows (in 000's):

|   | For the Years Ended |                     |
|---|---------------------|---------------------|
|   | September 30, 2005  | September 24, 2004  |
| Net cash provided by (used in) operating activities as previously reported              | \$ 434,050          | \$ (94,113)         |
| Reclassification related to increase in securities purchased under agreements to resell | (71,141)            | (19,617)            |
| Reclassification related to minority interest   | 4,210               | (4,724)             |
| Reclassifications related to variable interest entities                                 | 42,799              | 18,578              |
| <b>Net cash provided by (used in) operating activities as adjusted</b>                  | <b>\$ 409,918</b>   | <b>\$ (99,876)</b>  |
| Net cash used in investing activities as previously reported                            | \$ (323,328)        | \$ (116,043)        |
| Reclassifications related to variable interest entities                                 | (122,253)           | (22,569)            |
| <b>Net cash used in investing activities as adjusted</b>                                | <b>\$ (445,581)</b> | <b>\$ (138,612)</b> |
| Net cash provided by (used in) financing activities as previously reported              | \$ 354,408          | \$ (1,044)          |
| Reclassification related to minority interest   | (4,210)             | 4,724               |
| Reclassifications related to variable interest entities                                 | 58,603              | 3,991               |
| <b>Net cash provided by financing activities as adjusted</b>                            | <b>\$ 408,801</b>   | <b>\$ 7,671</b>     |

The effect of these reclassifications on the Company's previously reported annual consolidated financial statements was not material. These reclassifications had no effect on net income.

\*\*\*\*\*

**QUARTERLY FINANCIAL INFORMATION**  
(unaudited)

| <b>2006</b>                                     | <b>1st Qtr.</b>                   | <b>2nd Qtr.</b> | <b>3rd Qtr.</b>        | <b>4th Qtr.</b> |
|---|-----------------------------------|-----------------|------------------------|-----------------|
|   | (In 000's, except per share data) |                 |                        |                 |
| Revenues  | \$ 575,347                        | \$ 656,818      | \$ 711,357             | \$ 689,235      |
| Net Revenues                                    | 526,536                           | 592,802         | 629,668                | 587,081         |
| Non-Interest expenses                           | 455,716                           | 501,538         | 535,339                | 509,587         |
| Income before income taxes                      | 71,335                            | 95,310          | 96,502                 | 78,919          |
| Net income                                      | 45,109                            | 61,531          | 56,774                 | 50,928          |
| Net income per share - basic <sup>(1)</sup>     | .41                               | .54             | .50                    | .45             |
| Net income per share - diluted <sup>(1)</sup>   | .40                               | .53             | .48                    | .44             |
| Dividends declared per share <sup>(1)</sup>     | .08                               | .08             | .08                    | .08             |
| <br>  |                                   |                 |                        |                 |
| <b>2005</b>                                     | <b>1st Qtr.</b>                   | <b>2nd Qtr.</b> | <b>3rd Qtr.</b>        | <b>4th Qtr.</b> |
|   | (In 000's, except per share data) |                 |                        |                 |
| Revenues  | \$ 524,377                        | \$ 512,327      | \$ 526,362             | \$ 593,931      |
| Net Revenues                                    | 498,985                           | 483,118         | 493,544                | 563,561         |
| Non-Interest expenses                           | 432,591                           | 428,609         | 437,859 <sup>(2)</sup> | 494,696         |
| Income before income taxes                      | 64,805                            | 58,129          | 51,476                 | 73,561          |
| Net income                                      | 39,243                            | 34,697          | 32,382                 | 44,724          |
| Net income per share - basic <sup>(1) (3)</sup> | .35                               | .31             | .29                    | .40             |
| Net income per share - diluted <sup>(1)</sup>   | .35                               | .30             | .29                    | .39             |
| Dividends declared per share <sup>(1) (3)</sup> | .05                               | .05             | .05                    | .05             |

- (1) Adjusted for three-for-two stock split paid on March 22, 2006.
- (2) Due to a reclassification of minority interest this amount is not the previously reported amount for the quarter.
- (3) Due to rounding the quarterly results do not add to the total for the year.

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

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**ITEM 9A. CONTROLS AND PROCEDURES**

Disclosure controls are procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to ensure that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives, as the Company's are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in the Company's internal control over financial reporting during the year ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of the Company's financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect the Company's transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of its financial statements; providing reasonable assurance that receipts and expenditures of Company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on the Company's financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of the Company's financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of September 30, 2006. KPMG LLP has audited this assessment of the Company's internal control over financial reporting; their report, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of September 30, 2006, is included below.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Raymond James Financial, Inc.:

We have audited management's assessment, included in the accompanying Report of Management on Internal Control Over Financial Reporting, that Raymond James Financial, Inc. maintained effective internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Raymond James Financial, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Raymond James Financial, Inc. maintained effective internal control over financial reporting as of September 30, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Also, in our opinion, Raymond James Financial, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in *Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Raymond James Financial, Inc. and subsidiaries as of September 30, 2006 and 2005, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2006, and our report dated December 14, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Tampa, Florida  
December 14, 2006  
Certified Public Accountants

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**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

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**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Executive officers of the registrant (including its significant subsidiaries) who are not Directors of the registrant are as follows:

|                         |    |  |
|-------------------------|----|--|
| Jennifer C. Ackart      | 42 | Controller and Chief Accounting Officer  |
| Richard G. Averitt, III | 61 | Chairman and CEO - Raymond James Financial Services, Inc.  |
| George Catanese         | 47 | Senior Vice President and Chief Risk Officer   |
| Tim Eitel               | 57 | Chief Information Officer - Raymond James & Associates   |
| Jeffrey P. Julien       | 50 | Senior Vice President - Finance and Chief Financial Officer, Director and/or officer of several RJF subsidiaries |
| Paul L. Matecki         | 51 | General Counsel, Director of Compliance - RJF  |
| Richard K. Riess        | 57 | Executive Vice President - RJF,<br>CEO and Director of both Eagle and Heritage                                   |
| Van C. Sayler           | 51 | Senior Vice President - Fixed Income, Raymond James & Associates   |
| Thomas R. Tremaine      | 50 | Executive Vice President - Operations and Administration, Raymond James & Associates                             |
| Jeffrey E. Trocin       | 47 | Executive Vice President - Equity Capital Markets, Raymond James & Associates                                    |
| Dennis W. Zank          | 52 | President - Raymond James & Associates   |

The information required by Item 10 relating to Directors of the registrant is incorporated herein by reference to the registrant's definitive proxy statement for the 2007 Annual Meeting of Shareholders. Such proxy statement will be filed with the SEC prior to January 11, 2007.

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**ITEMS 11, 12, 13 AND 14.**

The information required by Items 11, 12, 13 and 14 is incorporated herein by reference to the registrant's definitive proxy statement for the 2007 Annual Meeting of Shareholders. Such proxy statement will be filed with the SEC prior to January 11, 2007.

## PART IV

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#### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements and Schedules

The financial statements are set forth under Item 8 of this Annual Report on Form 10-K. Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

(b) Exhibit Listing

| <b>Exhibit Number</b> | <b>Description</b>  |
|-----------------------|---|
| 3(i).1                | Amended and restated Articles of Incorporation of Raymond James Financial, Inc. as filed with the Secretary of State Florida on March 21, 2001, incorporated by reference to Exhibit 3.1 as filed with Form 10-K on December 21, 2001.            |
| 3(i).2                | Articles of Amendment to Articles of Incorporation of Raymond James Financial, Inc., incorporated by reference to Exhibit 3 as filed with Form 10-Q on May 4, 2005.   |
| 3(ii).1               | Amended and Restated By-Laws of Raymond James Financial, Inc. reflecting amendments adopted by the Board of Directors on May 25, 2006, incorporated by reference to Exhibit 3(ii) as filed with Form 10-Q on August 9, 2006.                      |
| 10.1*                 | Raymond James Financial, Inc. 2002 Incentive Stock Option Plan effective February 14, 2002, incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8, No. 333-98537, filed August 22, 2002.                                 |
| 10.2*                 | Raymond James Financial, Inc. Restricted Stock Plan and Stock Bonus Plan effective October 1, 1999, incorporated by reference to Exhibits 4.1 and 4.2, respectively to Registration Statement on Form S-8, No. 333-74716, filed December 7, 2001. |
| 10.3                  | Arrangement Agreement between Goepel McDermid Inc. as seller, and Raymond James Holdings (Canada), Inc. incorporated by reference to Exhibit 10 to Registration Statement on Form S-3, No. 333-51840, filed on December 14, 2000.                 |
| 10.4                  | Mortgage Agreement for \$75 million dated as of December 13, 2002 incorporated by reference to Exhibit No. 10 as filed with Form 10-K on December 23, 2002.   |
| 10.5*                 | Raymond James Financial, Inc.'s Stock Option Plan for Key Management Personnel effective November 21, 1996, incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8, No. 333-103277, filed February 18, 2003.              |
| 10.6*                 | Raymond James Financial, Inc. 2003 Employee Stock Purchase Plan incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8, No. 333-103280, filed February 18, 2003.  |

- 10.7 Form of Indemnification Agreement with Directors, incorporated by reference to Exhibit 10.18 as filed with Form 10-K on December 8, 2004.
- 10.8.1\* The 2005 Raymond James Financial, Inc. Restricted Stock Plan effective February 17, 2005, incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8, No. 333-125214, filed May 25, 2005.
- 10.8.2\* First Amendment to 2005 Raymond James Financial, Inc. Restricted Stock Plan as filed with Form 8-K on February 21, 2006.
- 10.9.1 Amended and Restated Revolving Credit Agreement for \$200 million dated as of October 13, 2005, incorporated by reference to Exhibit 10.9 as filed with Form 10-K on December 14, 2005.
- 10.9.2 [Amendment No. 1 and Waiver to Amended and Restated Revolving Credit Agreement, dated as of October 11, 2006, filed herewith.](#)
- 10.10\* Raymond James Financial, Inc. Amended Stock Option Plan for Outside Directors, incorporated by reference to Exhibit 10 as filed with Form 10-Q on February 9, 2006.
- 10.11\* [Amended and Restated Raymond James Financial Long Term Incentive Plan, filed herewith.](#)
- 11 Computation of Earnings per Share is set forth in Note 21 of the Notes to the Consolidated Financial Statements in this Form 10-K.
- 14 Code of Ethics for Senior Financial Officers, incorporated by reference to Exhibit 10.18 as filed with Form 10-K on December 8, 2004.
- 21 [List of Subsidiaries, filed herewith.](#)
- 23 [Consent of Independent Auditors, filed herewith.](#)
- 31 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.](#)
- 32 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.](#)
- 99(i).1 [Charter of the Audit Committee of the Board of Directors as revised on November 28, 2006, filed herewith.](#)
- 99(i).2 [Charter of the Corporate Governance, Nominating and Compensation Committee as revised on November 28, 2006, filed herewith.](#)

\* Indicates a management contract or compensatory plan or arrangement.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of St. Petersburg, State of Florida, on the 14<sup>th</sup> day of December, 2006.

RAYMOND JAMES FINANCIAL, INC.

By /s/ THOMAS A. JAMES  
Thomas A. James, Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signature</u>  | <u>Title</u>   | <u>Date</u>       |
|---|--|-------------------|
| <u>/s/ THOMAS A. JAMES</u><br>Thomas A. James             | Chairman and Chief<br>Executive Officer, Director              | December 14, 2006 |
| <u>/s/ CHET B. HELCK</u><br>Chet B. Helck                 | President and Chief Operating Officer, Director                | December 14, 2006 |
| <u>/s/ FRANCIS S. GODBOLD</u><br>Francis S. Godbold       | Vice Chairman and Director                                     | December 14, 2006 |
| <u>/s/ JEFFREY P. JULIEN</u><br>Jeffrey P. Julien         | Senior Vice President - Finance<br>and Chief Financial Officer | December 14, 2006 |
| <u>/s/ JENNIFER C. ACKART</u><br>Jennifer C. Ackart       | Controller and Chief Accounting Officer                        | December 14, 2006 |
| <u>/s/ ANGELA M. BIEVER</u><br>Angela M. Biever           | Director   | December 14, 2006 |
| <u>/s/ H. WILLIAM HABERMEYER</u><br>H. William Habermeyer | Director   | December 14, 2006 |
| <u>/s/ PAUL W. MARSHALL</u><br>Paul W. Marshall           | Director   | December 14, 2006 |
| <u>/s/ PAUL C. REILLY</u><br>Paul C. Reilly               | Director   | December 14, 2006 |
| <u>/s/ KENNETH A. SHIELDS</u><br>Kenneth A. Shields       | Director   | December 14, 2006 |
| <u>/s/ HARDWICK SIMMONS</u><br>Hardwick Simmons           | Director   | December 14, 2006 |



**Exhibit 10.9.2**

**AMENDMENT NO. 1 AND WAIVER**

**TO**

**AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT**

This AMENDMENT NO. 1 AND WAIVER TO AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT ("Amendment No. 1") is dated as of October 11, 2006 by and among RAYMOND JAMES FINANCIAL, INC., a Florida corporation (the "Borrower"), the Lenders named on the signature page hereto (the "Lenders"), and JPMORGAN CHASE BANK, N.A., individually and as administrative agent (the "Agent") for the Lenders.

WITNESSETH:

WHEREAS, the Borrower, the Agent and the Lenders are parties to that certain Amended and Restated Revolving Credit Agreement dated as of October 13, 2005 (the "Credit Agreement"); and

WHEREAS, the parties desire to make certain modifications to the Credit Agreement, including an extension of the Facility Termination Date to October 9, 2007, and to waive compliance with certain provisions of the Credit Agreement prior to their amendment herein.

NOW, THEREFORE, in consideration of the premises herein contained, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereby agree as follows:

**I. Defined Terms**

Capitalized terms used but not defined herein are used with the meanings assigned to them in the Credit Agreement.

**II. Amendments to the Credit Agreement**

2.1. The definition of "Eurodollar Rate" in Article I of the Credit Agreement is hereby amended in its entirety to read as follows:

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (a) the quotient of (i) the Eurodollar Base Rate applicable to such Interest Period, divided by (ii) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus (b) (i) 0.75% per annum during any period when the outstanding principal amount of the Advances is less than 50% of the Aggregate Commitment and (ii) 0.875% per annum during any period when the outstanding principal amount of the Advances is greater than or equal to 50% of the Aggregate Commitment.

2.2. The definition of "Facility Termination Date" in Article I of the Credit Agreement is hereby amended in its entirety to read as follows:

"Facility Termination Date" means October 9, 2007 or any later date as may be specified as the Facility Termination Date in accordance with Section 2.18 or any earlier date on which the Aggregate Commitment is reduced to zero or otherwise terminated pursuant to the terms hereof."

2.3. The definition of "Fiscal Year" in Article I of the Credit Agreement is hereby amended in its entirety to read as follows:

"Fiscal Year" means the twelve-month accounting period ending on the last day of September of each year."

2.4. The proviso clause at the end of the definition of "Investment" in Article I of the Credit Agreement is hereby amended by deleting the phrase "as heretofore conducted" so that such clause reads in its entirety as follows:

"provided, however, that in regard to clauses (b), (c) and (d), 'Investment' shall not include any such securities, accounts or instruments owned or acquired by the Borrower or its Subsidiaries in the ordinary course of its business, including but not limited to the market making activities of RJA."

2.5. The second sentence of Section 2.7 (up to and including the colon) is hereby amended to read as follow:

"The Borrower shall give the Agent irrevocable telephone notice not later than 11:00 a.m. (New York time) on the Borrowing Date of each Floating Rate Advance and three Business Days before the Borrowing Date for each Eurodollar Advance, such notice to be promptly confirmed in writing substantially in the form of Exhibit A (a "Borrowing/Election Notice"), specifying:"

2.6. Section 5.8 of the Credit Agreement entitled "Litigation and Contingent Obligations" is hereby amended by inserting the following clause at the beginning of the first sentence of such Section:

"Except as described in the "Legal Proceedings" section of the Borrower's Exchange Act reports filed with the Commission during the twelve-month period ended June 30, 2006, there is no litigation . . ."

2.7. Section 5.13 of the Credit Agreement entitled "Investment Company" is hereby amended in its entirety to read as follows:

"5.13. Investment Company. Neither the Borrower nor any Subsidiary is, or after giving effect to any Advance will be, subject to registration or regulation under (i) the Investment Company Act of 1940, as amended, or (ii) any other foreign, federal or state statute or regulation which limits its ability to incur indebtedness or consummate the transactions contemplated hereby."

2.8. Section 5.16 of the Credit Agreement entitled "Insurance" is hereby amended in its entirety to read as follows:

"5.16. Insurance. The Borrower and its Subsidiaries maintain with financially sound and reputable insurance companies insurance on their Property in such amounts and covering such risks as is reasonably consistent with sound business practice, except to the extent that wind and flood insurance coverage is not available on commercially

reasonable terms.”

2.9. Subsection (a) of Section 6.1 of the Credit Agreement entitled "Financial Reporting" is hereby amended in its entirety to read as follows:

“(a) As soon as practicable and in any event within 75 days after the close of each of its Fiscal Years, an unqualified audit report from KPMG LLP, PricewaterhouseCoopers LLP, Ernst & Young LLP or Deloitte & Touche LLP prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period and related statements of income, changes in shareholders' equity and cash flows, and accompanied by any management letter prepared by said accountants (when available).”

2.10. Section 6.6 of the Credit Agreement entitled “Insurance” is hereby amended in its entirety to read as follows:

“6.6. Insurance. The Borrower will, and will cause each Subsidiary to, maintain with financially sound and reputable insurance companies insurance in such amounts and covering such risks as is reasonably consistent with sound business practice, except to the extent that wind and flood insurance coverage is not available on commercially reasonable terms, and the Borrower will furnish to the Agent and any Lender upon request full information as to the insurance carried.”

2.11. Section 6.10 of the Credit Agreement entitled “Ownership of Subsidiaries” is hereby amended in its entirety to read as follows:

“6.10. Ownership of Subsidiaries. The Borrower will continue to own, directly or indirectly, beneficially and of record, free and clear of all Liens and restrictions, at least 75% of the outstanding shares of capital stock of each of RJA and RJFS.”

2.12. Subsection (h) of Section 6.11 of the Credit Agreement entitled “Indebtedness” is hereby amended in its entirety to read as follows:

“(h) Indebtedness of any Subsidiary for borrowed money from the Borrower which is not subordinated by its terms to other Indebtedness of such Subsidiary, except for Indebtedness not exceeding CDN. \$155,000,000 of Raymond James Ltd./Raymond James Ltée. (Canadian Subsidiary) for borrowed money from the Borrower (or an Affiliate of the Borrower) which is subordinated by its terms to other Indebtedness of such Subsidiary;”

2.13. Subsection (i) of Section 6.11 of the Credit Agreement entitled “Indebtedness” is hereby amended in its entirety to read as follows:

“(i) Additional mortgage Indebtedness in an aggregate principal amount not exceeding \$50,000,000, the proceeds of which are used for the expansion of the Borrower’s corporate headquarters;”

2.14. Section 6.11 of the Credit Agreement entitled “Indebtedness” is hereby further amended by deleting existing subsection (k), deleting the word “and” at the end of subsection (j), and inserting the following new subsections (k) and (l) to read as follows:

“(k) Indebtedness related to investments in real estate partnerships owed by variable interest entities of the Borrower in an aggregate principal amount not exceeding the value of associated assets reflected on the Borrower's balance sheet; and

(l) Unsecured Indebtedness not otherwise permitted by this Section 6.11 in an aggregate principal amount not exceeding \$10,000,000.”

2.15. Clause (a) of Section 6.12 of the Credit Agreement entitled “Merger” is hereby amended in its entirety to read as follows:

“(a) a Wholly-Owned Subsidiary may merge or consolidate into the Borrower or any Wholly-Owned Subsidiary of the Borrower;”

2.16. The phrase “Obligations of, or fully guaranteed by, the United States of America;” in subsection (b) of Section 6.14 of the Credit Agreement entitled “Investments and Acquisitions” is hereby amended to read as follows:

“Obligations of, or fully guaranteed by, the United States of America or the Commonwealth of Canada;”

2.17. Subsection (c) of Section 6.14 of the Credit Agreement entitled “Investments and Acquisitions” is hereby amended in its entirety to read as follows:

“(c) Publicly traded securities and private equity participations, including equity investments in commercial aircraft leveraged lease transactions; “

2.18. Section 6.14 of the Credit Agreement entitled “Investments and Acquisitions” is hereby further amended by deleting the word “and” at the end of subsection (f), substituting a semi-colon for the period at the end of subsection (g), and adding the following subsections (h) and (i) to Section 6.14 as follows:

“(h) Investments in (i) mortgage loans not exceeding \$100,000,000 in aggregate principal amount outstanding to finance low income housing projects in which the tax credit funds sponsored by Raymond James Tax Credit Funds, Inc. have equity investments (such mortgage loans to be in addition to the guarantees or loans permitted pursuant to Sections 6.11(j) and 6.15(d) hereof), and (ii) loans to Pine Creek Healthcare Capital, Inc. to purchase and carry debt obligations not exceeding \$50,000,000 in aggregate principal amount outstanding that are issued to fund rural health care facilities and associated equipment; and

(i) Investment in a Canadian trust fund established and funded to acquire Borrower common stock in the open market in order to make in-kind settlements of restricted stock units granted as bonuses to certain employees of Raymond James Ltd./Raymond James Ltée.”

2.19. Subsection (e) of Section 6.15 of the Credit Agreement entitled “Contingent Obligations” is hereby amended in its entirety to read as follows:

“(e) guarantees by the Borrower relating to the net performance obligations of RJ Capital Services, Inc. owed to counterparties under interest rate and credit default swap transactions documented under the ISDA (International Swaps Dealer Association) form Master Agreement and applicable Addenda; and”

2.20. Clause (b) of Section 6.18 of the Credit Agreement entitled “Change in Corporate Structure; Fiscal Year” is hereby amended in its entirety to read as follows:

“(b) change its Fiscal Year to end on any date other than the last day of September of each year.”

2.21. Clause (a)(iii) of Section 6.19 of the Credit Agreement entitled “Inconsistent Agreements” is hereby amended in its entirety to read as follows:

“(iii) repay loans or advances from the Borrower (except to the extent repayment of such loans or advances is permitted to be subordinated pursuant to Section 6.11(h) hereof or”

2.22. Section 6.20.1 of the Credit Agreement entitled “Minimum Tangible Net Worth” is hereby amended in its entirety to read as follows:

“6.20.1. Minimum Tangible Net Worth. The Borrower on a consolidated basis with its Subsidiaries at all times after the date hereof shall maintain Tangible Net Worth of not less than (i) \$1,105,000,000 plus (ii) 50% of cumulative Net Income (if positive) earned after June 30, 2006.”

2.23. Section 6.20.5 of the Credit Agreement entitled “RJA/RJFS Excess Net Capital” is hereby amended in its entirety to read as follows:

“6.20.5. RJA/RJFS Excess Net Capital. The Borrower shall cause RJA and RJFS at all times, except for certain limited periods totalling not more than 20 days during any Fiscal Year when equity and/or debt underwriting commitments result in a temporary reduction of Excess Net Capital, to have combined Excess Net Capital of not less than \$200,000,000.”

2.24. Schedules I and II to the Credit Agreement are hereby amended in their entirety as set forth in Annex A to this Amendment No. 1.

### **III. Waiver**

The Borrower has requested the Lenders to waive non-compliance with three pre-existing provisions of the Credit Agreement (prior to modification by this Amendment No.1) constituting a Default or Unmatured Default as follows: (a) Indebtedness related to investments in real estate partnerships owed by variable interest entities of the Borrower that has been outstanding since September 30, 2005 was not previously permitted under Section 6.11 of the Credit Agreement (now permitted by the amendment effected by Section 2.14 of this Amendment No. 1); (b) the accountants' certificate previously specified in Subsection 6.1(a)(ii) of the Credit Agreement to accompany year-end audit reports (deleted as a requirement pursuant to Section 2.9 of this Amendment No.1) was not furnished by the Borrower for the Fiscal Year ended September 30, 2005; and (c) as of October 1, 2006, the Borrower's Canadian Subsidiary will have outstanding Indebtedness for borrowed money from the Borrower which is subordinated to other Indebtedness of such Subsidiary (now permitted by the amendments effected by Sections 2.12 and 2.21 of this Amendment No. 1). The Lenders hereby agree to waive any Default or Unmatured Default caused solely by the Borrower's failure to comply with the foregoing provisions prior to the effectiveness of this Amendment No.1. This waiver is limited to its terms and shall not constitute a waiver of any other term, condition, representation or covenant under the Credit Agreement or any other Loan Document.

### **IV. Borrower Representations**

In order to induce the Lenders and the Agent to execute and deliver this Amendment No. 1, the Borrower represents and warrants to the Lenders that, both before and after giving effect to this Amendment No. 1, (i) there exists no Default or Unmatured Default on the date hereof, (ii) each of the representations and warranties contained in Article V of the Credit Agreement is true and correct on the date hereof (it being understood that the Borrower makes the representations and warranties contained in Sections 5.9 (Schedule I), 5.13 and 5.16 in the form amended by this Amendment No. 1; and further, as to the second sentence of Section 5.7, the Borrower represents that the Internal Revenue Service has completed its audit of the Borrower's U.S. income tax returns on a consolidated basis through the Fiscal Year ending September 26, 2003), (iii) the execution and delivery by the Borrower of this Amendment No. 1 have been duly authorized by all requisite corporate proceedings, (iv) this Amendment No. 1 and the other Loan Documents to which the Borrower is a party constitute the legal, valid and binding obligations of the Borrower enforceable in accordance with their respective terms, (v) no authorization or approval of, and no notice to or filing with, any Governmental Authority or other Person is required for the due execution, delivery or performance of this Amendment No. 1 by the Borrower, and (vi) no material adverse change in the business, Property, condition (financial or otherwise) or results of operations of the Borrower and its Subsidiaries taken as a whole has occurred since September 30, 2005.

### **V. Effectiveness**

This Amendment No. 1 shall become effective as of the date first above written upon fulfillment of the following conditions (and when notice thereof shall have been given by the Agent to the Borrower and the Lenders):

(i) the Agent shall have received counterparts of this Amendment No. 1 duly executed by the Borrower and the Lenders;

(ii) the Borrower shall have delivered to the Agent a certificate of Borrower's Secretary and a certificate of Borrower's Chief Financial Officer in form and substance satisfactory to the Agent and its counsel; and

(iii) all accrued fees and expenses of the Agent (including the accrued fees and expenses of counsel to the Agent invoiced on or prior to the date hereof) shall have been paid by the Borrower.

### **VI. Ratification**

Except as specifically provided herein, (a) the Credit Agreement shall otherwise remain unaltered and in full force and effect, and the respective terms, conditions and covenants thereof are hereby ratified and confirmed in all respects as originally executed, and (b) except for the limited waiver set forth in Article III above, this Amendment No. 1 shall not operate as a waiver of any right, power or remedy of any Lender or the Agent under any of the Loan Documents. Upon the effectiveness of this Amendment No. 1, each reference in the Credit Agreement to “this Agreement”, “hereof”, “herein”, “hereunder” or words of like import shall mean and be a reference to the Credit Agreement as amended hereby.

### **VII. Governing Law**

THIS AMENDMENT NO. 1 SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

### **VIII. Execution in Counterparts**

This Amendment No. 1 may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

[signature pages follow]

IN WITNESS WHEREOF, the Borrower, the Lenders and the Agents have executed this Amendment No. 1 as of the date first above written.

RAYMOND JAMES FINANCIAL, INC.

By:

Title:

Address for Notices:  
880 Carillon Parkway  
St. Petersburg, Florida 33716  
Attention: Jeffrey P. Julien  
Telephone: (727) 567-5021  
Facsimile: (727) 573-8915

Commitment:  
\$40,000,000

JPMORGAN CHASE BANK, N.A.,  
Individually and as Administrative Agent

By:

Title:

Address for General Notices:  
Financial Institutions-Broker-Dealer Group  
277 Park Avenue  
23<sup>rd</sup> Floor  
New York, NY 10172  
Attention: Pandora Setian  
Telephone: (212) 622-5088  
Facsimile: (646) 534-1720

Address for Funding Matters:  
Loan and Agency Services  
1111 Fannin, 10<sup>th</sup> Floor  
Houston, TX 77002  
Attention: Carla M. Kinney  
Telephone: (713) 750-3560  
Facsimile: (713) 750-2223

Commitment:  
\$40,000,000

CITIBANK, N.A.,  
Individually and as Syndication Agent

By:

Title:

Address for Notices:  
388 Greenwich Street  
8<sup>th</sup> Floor  
New York, New York 10013  
Attention: Michael Mauerstein  
Telephone: (212) 816-3431  
Facsimile: (212) 816-5325

Commitment:  
\$40,000,000

THE BANK OF NEW YORK,  
Individually and as Co-Documentation Agent

By:

Title:

Address for Notices:  
One Wall Street  
41<sup>st</sup> Floor  
New York, New York 10286  
Attention: John Templeton  
Telephone: (212) 635-6823  
Facsimile: (212) 809-9566

Commitment:  
\$40,000,000

WELLS FARGO BANK, NATIONAL  
ASSOCIATION,  
Individually and as Co-Documentation Agent

By:

Title:

Address for Notices:  
Wells Fargo Center  
Sixth and Marquette  
Minneapolis, MN 55479  
Attention: Financial Institutions Division  
Telephone: (612) 667-9293  
Facsimile: (612) 667-7251

Commitment:  
\$40,000,000

CALYON NEW YORK BRANCH,  
Individually and as Co-Documentation Agent

By:

Title:

By:

Title:

Address for Notices:  
1301 Avenue of the Americas  
New York, NY 10019  
Attention: Seth Ruffer  
Telephone: (212) 261-7410  
Facsimile: (212) 261-3401

CHI:1783759.6

ANNEX A

Schedule I

Raymond James Financial, Inc.

Material Subsidiaries\*

| <u>Name</u>                            | <u>Jurisdiction of Organization</u> |
|--|-------------------------------------|
| Eagle Asset Management, Inc.           | Florida                             |
| Heritage Asset Management, Inc.        | Florida                             |
| Planning Corporation Of America        | Florida                             |
| Raymond James & Associates, Inc.       | Florida                             |
| Raymond James Bank, FSB                | U.S.A.                              |
| Raymond James Financial Services, Inc. | Florida                             |
| Raymond James Ltd./Raymond James Ltée. | Canada                              |
| Raymond James Tax Credit Funds, Inc.   | Florida                             |
| Raymond James Trust Company            | Florida                             |
| RJ Capital Services, Inc.              | Delaware                            |

\* All Material Subsidiaries are 100% directly or indirectly owned by the Borrower.

Raymond James Financial, Inc.

Schedule of Existing Indebtedness

Liabilities Identified on the Borrower's Balance Sheet as of June 30, 2006,  
As Increased or Decreased in the Ordinary Course of Business Since That Date

Raymond James & Associates, Inc. (RJA) \$70 million mortgage indebtedness on the corporate headquarters.

RJA and Raymond James Ltd./Raymond James Ltée. secured and unsecured lines of credit used to facilitate the broker-dealer business.

Stadium Naming Rights (original obligation dated July 26, 1998) as extended through December 31, 2015 total \$33,120,233.

Guarantees with respect to settlement of securities transactions by its own offices or foreign joint ventures extended to customers of, lenders to or clearing agencies for, its own offices, or foreign joint ventures.

Raymond James Bank secured FHLB advances to provide traditional banking products and services.

Raymond James Financial Inc. has committed to up to \$50.0 million to 36 different independent venture capital or private equity partnerships.

Raymond James Financial, Inc. has committed to guarantee swap contracts, as requested, entered into by its subsidiary Raymond James Capital Services, Inc.

Long-term lease agreements and short-term equipment leases of \$46.5 million.

**Exhibit 10.11**

**AMENDED AND RESTATED  
RAYMOND JAMES FINANCIAL  
LONG-TERM INCENTIVE PLAN**

**PREAMBLE**

Raymond James Financial, Inc. (the "Company") has previously established the Raymond James Financial Long-Term Incentive Plan (the "Plan"), effective October 1, 2000, for a select group of management or highly compensated employees in order to attract, retain and motivate qualified personnel for the Company and its Related Employers.

This Plan is being redesigned and restated in this document, effective as of January 1, 2005, as a result of changes made by the adoption of Code Section 409A and otherwise. Also, Accounts held for certain former participants in this Plan were spun off into a newly created Raymond James Financial Long-Term Bonus Plan after September 30, 2005 and this Plan will no longer govern such spun off Accounts and benefits. However, this Amendment and Restatement shall apply to such spun off Accounts and benefits from the Effective Date until the effective date of the Long-Term Bonus Plan.

This Plan was amended in December 2005 (which amendment will not be affected by this Amendment and Restatement) to permit, among other things, each continuing Participant in this Plan who, prior to January 1, 2005, made any deferral election under the Plan, to make new payment elections prior to December 31, 2005 (both as to the form and timing of a payment) with respect to amounts previously deferred, each such election to be consistent with the provisions of the Plan as they may exist as of January 1, 2005 (after giving effect to this and any other retroactive amendments to the Plan). All such new elections shall be consistent with the terms and conditions of this Amendment and Restatement and shall be governed by this Amendment and Restatement.

**ARTICLE I  
Definitions**

- (a) "**Account**" shall mean a Participant's Employer Contribution Account as described in Article IV.
- (b) "**Code**" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time. Reference to a specific Code Section shall include any successor provision.
- (c) "**Committee**" shall mean the Compensation Committee of the Board of Directors of the Company.
- (d) "**Company**" shall mean Raymond James Financial, Inc., a Florida corporation, and its successor or successors.
- (e) "**Disability**" shall mean a disability within the meaning of the provisions of the Raymond James, Financial, Inc. Long-Term Disability Plan; provided, however, that such event is also an event of disability within the meaning of Code Section 409A.
- (f) "**Early Retirement Date**" shall mean, with respect to a Participant, the date that is the earliest of (1) the date at or after the Participant attains age 55 when the number of the Participant's years of service plus the age of the Participant equals 75 or (2) the date at or after the Participant attains age 60 when the Participant has at least five years of service. For these purposes, "years of service" shall be determined in accordance with the vesting provisions of the Raymond James Financial, Inc. and Affiliates Profit Sharing Plan as it may exist from time to time.
- (g) "**Effective Date**" of this Amendment and Restatement shall be January 1, 2005.
- (h) "**Normal Retirement Date**" shall mean, with respect to a Participant, the date on which the Participant attains age 65.
- (i) "**Participant**" shall mean any employee of the Company or a Related Employer who is covered by this Plan as provided in Article III.
- (j) "**Period of Credited Service**" shall mean the period from October 1 of one year through September 30 of the next year.
- (k) "**Plan**" shall mean the Raymond James Financial Long-Term Incentive Plan as set forth herein and as it may be amended from time to time.
- (l) "**Plan Administrator**" shall mean the Committee or its designee(s).
- (m) "**Plan Year**" shall mean the 12-month period ending on the last day of September.
- (n) "**Related Employer**" shall mean a corporation, limited liability company or other business entity that is affiliated with the Company, that has elected to adopt the Plan, and that the Company, in its sole discretion, allows to participate in the Plan as a participating employer.
- (o) "**Separation from Service**" shall mean the termination of employment of a Participant (whether for death, disability, retirement or otherwise) with his or her Service Recipient if such termination qualifies as a separation from service within the meaning of Code Section 409A.
- (p) "**Service Recipient**" shall mean a Participant's employer and all other corporations and other persons with whom such employer would be considered as a single employer under Code Section 414(b) or Code Section 414(c).
- (q) "**Specified Employee**" shall mean a Participant who is a key employee (as defined in Code Section 416(i) (without regard to Code Section 416(i)(5)) of a Service Recipient at any time during the 12-month period ending on September 30 as long as any stock of the Service Recipient is publicly traded on an established securities market or otherwise. Any such person shall be treated as a Specified Employee during the 12-month period beginning on January 1 following such September 30.

**ARTICLE II**  
**Administration**

(a) **Plan Administrator.**

(1) The Plan Administrator shall have complete control and discretion to manage the operation and administration of the Plan. Not in limitation, but in amplification of the foregoing, the Plan Administrator shall have the following powers:

(A) to determine all questions relating to the eligibility of employees to participate or continue to participate;

(B) to maintain all records and books of account necessary for the administration of the Plan;

(C) to interpret the provisions of the Plan and to make and to publish such interpretive or procedural rules as are not inconsistent with the Plan and applicable law;

(D) to compute, certify and arrange for the payment of benefits to which any Participant or beneficiary is entitled;

(E) to process claims for benefits under the Plan by Participants or beneficiaries;

(F) to engage consultants and professionals to assist the Plan Administrator in carrying out its duties under this Plan;

(G) to develop and maintain such instruments as may be deemed necessary from time to time by the Plan Administrator to facilitate payment of benefits under the Plan; and

(H) to establish such accounting procedures as are necessary to implement the provisions of the Plan.

(2) The Plan Administrator may designate a committee, one or more employees or other individuals, one or more Company positions, and/or other designee(s), to assist the Plan Administrator in the administration of the Plan and the performance of the duties required of the Plan Administrator hereunder.

(b) **Plan Administrator's Authority.** The Plan Administrator may consult with Company officers, legal and financial advisers to the Company and others, but nevertheless the Plan Administrator shall have the full authority and discretion to act, and the Plan Administrator's actions shall be final and conclusive on all parties.

**ARTICLE III**  
**Eligibility and Participation**

(a) **Eligibility.** The Company or a Related Employer shall determine those of its employees who are eligible to participate in the Plan, subject to standards of eligibility as established by the Committee from time to time and subject to the requirement that the Plan be maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees (within the meaning of the Employee Retirement Security Act, as amended). Accordingly, an employee of the Company or a Related Employer who, in the opinion of the Company or a Related Employer based upon the then applicable Committee-established guidelines, has contributed or is expected to contribute significantly to the growth and successful operations of the Company or a Related Employer, who is a member of a select group of management or highly compensated employees, and who meets any additional criteria for eligibility established by the Committee will be eligible to become a Participant.

(b) **Participation.** An eligible employee shall become a Participant in the Plan at such time as a contribution is credited to the Account of such person in accordance with the provisions of Article IV.

**ARTICLE IV**  
**Company Contributions, Participant Accounts**  
**and Investment of Accounts**

(a) **Discretionary Contributions.** The Company or a Related Employer may, in accordance with the provisions of Article III, determine to credit an eligible employee with a discretionary contribution with respect to a Plan Year. The amount to be contributed shall be determined by the Committee in its sole discretion.

(b) **Participant Accounts.**

(1) Amounts, if any, credited to a Participant pursuant to this Plan shall be recorded by the Plan Administrator in an Employer Contribution Account maintained in the name of the Participant. A separate Account shall be maintained for each Plan Year that a person receives a contribution.

(2) All amounts that are credited to a Participant's Account shall be credited solely for purposes of accounting and computation, and no fund shall be set aside with respect thereto, except as may be provided in paragraph (e) below. A Participant shall not have any interest in or right to any such Account at any time.

(3) The Plan shall be unfunded for all federal tax purposes. All amounts recorded in an Account, a Participant's interest in the Plan and any amounts provided under the Plan shall constitute an unsecured promise by the Company or a Related Employer to pay benefits in the future, and a Participant shall have the status of a general unsecured creditor of the Company or Related Employer. All amounts credited to a Participant's Accounts will remain as general assets of the Company or a Related Employer and shall remain subject to the claims of the Company's or the Related Employer's creditors until such time as the amounts are distributed to the Participant.

(c) **Crediting and Debiting of Accounts.**

(1) As provided in paragraph (b)(1) above, a Participant's Account shall be credited with the amounts contributed to the Plan on behalf of the Participant with respect to a Plan Year. The Account thereafter shall be credited (or debited) from time to time based upon the Participant's allocable share of the return (including any negative return) on the investment or deemed investment of the amounts credited to the Participant's Account (which investments or deemed investments shall be determined by the Plan Administrator). Upon distribution or forfeiture of amounts in the Account, the Account shall be debited with the amount of the distribution or forfeiture, as the case may be.

(2) The Plan Administrator shall establish such rules and procedures as are necessary for purposes of crediting and debiting the Participants' Accounts from time to time. Without limitation on the foregoing, lump sum distributions shall be based on the value of the Accounts of a Participant as of the date of distribution or a record date that is (i) established by the Committee, (ii) applied on a consistent and nondiscriminatory basis, (iii) on or after the date of the event giving rise to the distribution, and (iv) no more than sixty (60) days prior to date of distribution.

(d) **Account Valuation.**

(1) The value of a Participant's Account(s) shall be determined by the Plan Administrator, and the Plan Administrator may establish such accounting procedures as are necessary to account for the Participant's interest in the Plan. Each Participant's Account(s) shall be valued as of the last day of each Plan Year and/or such other date or dates as may be determined from time to time by the Plan Administrator.

(2) At least annually, the Plan Administrator shall furnish each Participant with a statement of the value of his or her Account(s).

(e) **Establishment of Trust.**

(1) The Company and/or one or more Related Employers may, but are not required to, establish a trust substantially in conformity with the terms of the model trust described in Revenue Procedure 92-64 to assist in meeting their obligations to Participants under this Plan. Except as provided in subparagraph (4) below, any such trust shall be established in such manner so as to permit the assets transferred to the trust and the earnings thereon to be used by the trustee solely to satisfy the liability of the Company or a Related Employer in accordance with the Plan and to preclude the use of such assets for any other purpose.

(2) The Company or a Related Employer, in its sole discretion, and from time to time, may make contributions to the trust.

(3) The powers, duties and responsibilities of the trustee shall be as set forth in the trust agreement and nothing contained in the Plan, either expressly or by implication, shall impose any additional powers, duties or responsibilities upon the trustee.

(4) Unless otherwise paid by the Company or a Related Employer, all benefits under the Plan and expenses chargeable to the Plan and the trust, if one has been established, shall be paid from the trust.

**ARTICLE V**  
**Vesting and Payment of Benefits under the Plan**

(a) **General Vesting Rules.** A Participant shall become 100% vested in the amount credited to his or her Account (including earnings and other adjustments) with respect to a contribution for a specific Plan Year on the first to occur of the following:

- (1) the date that the Participant has five (5) consecutive Periods of Credited Service with respect to such contribution;
- (2) the Participant's Separation from Service by reason of death or Disability; or
- (3) the Participant's Separation from Service following the attainment of his or her Normal Retirement Date.

In addition, any Participant who was 100% vested in any Account prior to October 1, 2005 under the terms of the Plan as then in existence shall remain 100% vested therein.

For purposes of subparagraph (1) above, and subject to the provisions of paragraph (b) below, a Participant has five consecutive Periods of Credited Service only if the Participant is employed by the Company or a Related Employer for the full five-year period beginning on October 1 of the year following the Plan Year with respect to which the contribution is made and continuing through September 30 of the fifth year thereafter. For example, if a contribution is credited to a Participant with respect to the Plan Year ended September 30, 2005 (regardless whether the contribution is actually credited to the Account of the Participant in September 2005 or in subsequent months), the Participant will have five consecutive Periods of Credited Service only if the Participant remains employed by the Company or a Related Employer during the entire period from October 1, 2005 through September 30, 2010.

Except as expressly provided in this paragraph (a) or in paragraph (b) below, the Separation from Service of a Participant from the Company and Related Employers before the vesting date will result in a forfeiture of all of the balances in a Participant's Employer Contribution Accounts that are not then vested.

(b) **Special Vesting Rule for Early Retirement.**

(1) Notwithstanding the provisions of paragraph (a) above, if a Participant's Separation from Service occurs after his or her Early Retirement Date but before his or her Normal Retirement Date, then solely for vesting purposes, the Participant shall be treated as if he or she continued employment with the Company or a Related Employer and will vest 100% with respect to a contribution under the rule described in paragraph (a)(1) above at the end of five consecutive actual or deemed Periods of Credited Service with respect to such contribution. Such continued vesting, however, shall be subject to and conditioned upon the Participant not engaging in competition with the Company or any Related Employer during such five year period. The Participant engaging in any such competition will result in an immediate forfeiture of all of the balances in the Participant's Employer Contribution Accounts that are not then vested.

(2) For purposes of this paragraph (b), a Participant shall be deemed to have engaged in competition with the Company or a Related Employer if he or she:

(i) discloses the list of the Company's or a Related Employer's customers, or any part thereof, to any person, firm, corporation, association or other entity for any reason or purposes whatsoever;

(ii) discloses to any person, firm, corporation, association or other entity any information regarding the Company's or a Related Employer's general business practices or procedures, methods of sale, list of products, personnel information and any other valuable, special information unique to the Company's or a Related Employer's business;

(iii) owns, manages, operates, controls, is employed by, acts as an agent for, participates in or is connected in any manner with the ownership, management, operation or control of any business that is engaged in one or more businesses that are or may be competitive to the business of the Company or a Related Employer; provided that this restriction shall encompass (A) the State of Florida, (B) all other states in the United States where the Company or a Related Employer is engaged in business (and every city, county and other political subdivision of such states); and (C) any other countries where the Company or a Related Employer is engaged in business (and every city, county,

province and other political subdivision of such countries);

(iv) solicits or calls either for himself or herself, or for any other person or firm, corporation, association or other entity, any of the customers of the Company or a Related Employer on whom the Participant called, with whom the Participant became acquainted, or of whom the Participant learned during his employment; or

(v) solicits any of the employees or agents of the Company or a Related Employer to terminate his or her employment or relationship with the Company or a Related Employer.

(3) It is the intention of the Company and the Related Employers that paragraph (b)(2) be given the broadest protection allowed by law with regard to the restrictions contained herein. Each restriction set forth in paragraph (b)(2) shall be construed as a condition separate and apart from each other restriction or condition. To the extent that any restriction contained in paragraph (b)(2) is determined by any court of competent jurisdiction to be unenforceable by reason of it being extended for too great a period of time, or as encompassing too large of a geographic area, or over too great a range of activity, or any combination of these elements, then such restriction shall be interpreted to extend only over the maximum period of time, geographic area, and range of activities that the court deems reasonable and enforceable.

(c) **Payment Date.** Except as provided in paragraphs (d) and (e) below, payments due with respect to any contribution shall be made in cash in a lump sum on the first to occur of the following dates:

(1) in December immediately following the end of the five consecutive Periods of Credited Service with respect to such contribution (including under the special deemed credited service provisions set forth in section (b) above);

(2) as soon as practicable after the Participant's Separation from Service by reason of death or Disability; or

(3) in December immediately following the end of the Period of Credited Service in which the Participant incurred a Separation from Service following attainment of his or her Normal Retirement Age.

Notwithstanding the foregoing, payments due with respect to an Account that is 100% vested in accordance with the special grandfather rule contained at the end of the first paragraph of Article V(a) shall be paid in cash in a lump sum in December immediately following the end of the Period of Service in which the Participant incurred a Separation from Service.

(d) **One Time Right To Defer.** Notwithstanding the provisions of paragraph (c) above:

(1) A Participant shall have the right to defer the payment of any Employer Contribution Account balance otherwise payable under paragraph (c)(1) or (c)(3) above until a later date. Any such election to defer may be made only once with respect to any Plan Year balance, may not take effect until at least twelve (12) months after the date on which such election is made, must be made no later than September 30 of the calendar year prior to the calendar year in which the normal vesting date with respect to such Plan Year balance would occur under paragraph (a)(1) above (or, if applicable, under paragraph (b) above), must be made no later than twelve (12) months prior to the Participant's Separation from Service on or after the Participant's Normal Retirement Date, and must establish a beginning payment date that is at least five (5) years after the date that payment would have otherwise been made under paragraph (c)(1) or (c)(3) above absent the deferral election.

(2) As a general rule, the deferral election shall not affect the form of payment, which shall be in cash in a lump sum. However, if the date selected for payment is a date after the Participant's Early Retirement Date or Normal Retirement Date, then at the same time as the election to defer is made under the provisions of paragraph (d)(1) above, the Participant may elect to have the payment made in substantially equal annual installments over a specified period of time that is not less than three (3) years and not more than fifteen (15) years, with the first installment being paid on the date selected (which date must comply with the requirements of paragraph (d)(1) above) and each subsequent installment being made on the same date in each succeeding year. Notwithstanding the foregoing, if a Participant shall elect installment payments and if as of any October 31 thereafter, the aggregate amount of all of the balances of the Participant's Accounts that are then vested and are to be paid in installments is less than \$25,000, then each installment election shall be automatically voided and the aggregate amount of all of the balances of the Participant's Accounts that are then vested and were otherwise to be paid in installments shall be paid to the Participant in a lump sum in December immediately following such voiding of the installment elections.

(3) Notwithstanding the foregoing, any such election (whether under subparagraph (1) or (2)) shall be subject to the condition that it shall be disregarded and not given effect if the Participant incurs a Separation from Service prior to the Participant reaching either his or her Early Retirement Date or his or her Normal Retirement Date or if the Participant incurs a Separation from Service by reason of death or Disability on or after the Participant's Early Retirement Date or Normal Retirement Date. Moreover, in the event that the Participant has begun receiving installment payments and then incurs a Separation from Service by reason of death or Disability, the installment payments shall be terminated and the remaining balance shall be paid in a lump sum as soon as practicable after the Participant's Separation from Service by reason of death or Disability.

(e) **Required Payment Deferral.** Notwithstanding anything in this Plan to the contrary, in the event that a payment is scheduled to be made to a Specified Employee as a result of such Participant's Separation from Service (other than by reason of death), then no payment may be made to such Participant during the six (6) month period immediately following the date of the Participant's Separation from Service. In the event any payment is delayed under the provisions of this paragraph (e), then all amounts that the Participant would otherwise have been entitled to during the six-month period shall be accumulated and paid on the first day of the seventh month following the date of the Participant's Separation from Service.

(f) **As Soon As Is Practicable.** For purposes of this Article V, whenever payment is to be made "as soon as practicable" following a specified event, such payment shall be made in all events no later than the later of (1) the end of the calendar year in which the event occurs or (2) the 15<sup>th</sup> day of the third month following the month in which the event occurs.

## **ARTICLE VI** **Amendment and Termination**

(a) **In General.**

(1) The Plan may be amended at any time, and from time to time, by the Committee or by any officer of the Company authorized by the Committee.

(2) The Plan may be terminated at any time by the Committee.

(b) **Effect of Amendment or Termination.** No amendment or termination of the Plan, without the consent of the affected Participant, shall materially and adversely affect the rights of any Participant with respect to any contribution credited to the Account(s) of a Participant prior to such amendment or termination. Notwithstanding the foregoing, the Committee reserves the right to amend this Plan, without the consent of any Participant, in order to conform the Plan with the provisions of Code Section 409A.

**ARTICLE VII**  
**Miscellaneous**

(a) **Payments to Incompetents.** If the Plan Administrator receives satisfactory evidence that a person who is entitled to receive any benefit under the Plan, at the time such benefit becomes available, is physically unable, mentally incompetent, or not otherwise legally competent to receive such benefit and to give a valid release therefor, and that another person or an institution is then maintaining or has custody of such person, and that no guardian or other representatives of the estate of such person shall have been duly appointed, the Plan Administrator may authorize payment of such benefit otherwise payable to such person or institution; and the release of such other person or institution shall be valid and complete discharge for the payment of such benefit.

(b) **Plan Not a Contract of Employment.** The Plan shall not be deemed to constitute a contract between the Company or a Related Employer and any Participant, nor to be consideration for the employment of any Participant. Nothing in the Plan shall give a Participant the right to be retained in the employ of the Company or a Related Employer; all Participants shall remain subject to discharge or discipline as employees to the same extent as if the Plan had not been adopted.

(c) **No Interest in Assets.** Nothing contained in the Plan shall be deemed to give any Participant any equity or other interest in the assets, business or affairs of the Company or a Related Employer. No Participant in the Plan shall have any security or other legal interest in assets of the Company or a Related Employer used to make contributions or pay benefits.

(d) **Non-Alienation of Benefits.** No benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to do so shall be void. No benefit under the Plan shall in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person. If any person entitled to benefits under the Plan shall become bankrupt or shall attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under the Plan, or if any attempt shall be made to subject any such benefit to the debts, contracts, liabilities, engagements or torts of the person entitled to any such benefit, except as specifically provided in the Plan, then such benefits shall cease and terminate at the discretion of the Plan Administrator. The Plan Administrator may then hold or apply the same or any part thereof to or for the benefit of such person or any dependent or beneficiary of such person in such manner and proportions as it shall deem proper.

(e) **Governing Law.** This Plan shall be governed by and construed in accordance with the substantive laws of the State of Florida, without regard to any conflict of law principles.

(f) **Corporate Successors.** The Plan shall automatically terminate upon the sale or other transfer of substantially all of the assets of the Company, by the merger of the Company into any other corporation or other entity, or by the consolidation of the Company with any other corporation or other entity unless the transferee, purchaser or successor entity expressly agrees to continue the Plan. No such termination shall automatically result in the immediate or other accelerated payment of amounts previously deferred under this Plan.

(g) **Liability Limited.**

(1) Notwithstanding any of the preceding provisions of the Plan, neither the Company nor a Related Employer, nor any individual acting as an employee or agent of the Company or Related Employer, shall be liable to any Participant, former Participant or other person for any claim, loss, liability or expense incurred in connection with the Plan.

(2) The Plan Administrator, and its officers, directors and employees, shall be entitled to rely conclusively on all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, trustee, insurance company, consultant or other expert who shall be employed or engaged by the Plan Administrator in good faith.

IN WITNESS WHEREOF, the Company has caused this Amendment and Restatement to be executed by its duly authorized officer on this \_\_\_\_ day of \_\_\_\_\_, 2006.

**RAYMOND JAMES FINANCIAL, INC.**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

"COMPANY"

**EXHIBIT 21****RAYMOND JAMES FINANCIAL, INC.  
LIST OF SUBSIDIARIES**

The following listing includes all of the registrant's subsidiaries as of September 30, 2006, which are included in the consolidated financial statements:

| <b>Entity Name</b>                                 | <b>State/Country of Incorporation</b> | <b>Subsidiary or Joint Venture of</b>                 |
|--|---------------------------------------|---|
| 3051862 Nova Scotia Company                        | Canada                                | RJ Canada, Inc.                                       |
| 3051863 Nova Scotia Company                        | Canada                                | 3051862 Nova Scotia Company                           |
| 656948 British Columbia Ltd.                       | Canada                                | RJ Canada, Inc.                                       |
| 6632840 Canada Ltd.                                | Canada                                | RJF   |
| ASK-Raymond James Securities India Limited         | India                                 | Heritage International Limited                        |
| Awad & Assoc., Inc.                                | Florida                               | Awad Asset Management, Inc.                           |
| Awad Asset Management, Inc.                        | Florida                               | RJF   |
| Ballast Point Venture Partners, LLC                | Florida                               | RJF   |
| Ballast Point Venture Partners, LP                 | Florida                               | RJ Ventures, LLC                                      |
| EA Management I, LLC                               | Florida                               | EAGLE   |
| Eagle Asset Management, Inc.                       | Florida                               | RJF   |
| EB Management I, LLC                               | Florida                               | EAGLE   |
| Gateway Institutional Fund Ltd.                    | Florida                               | RJTFCF  |
| Gateway Tax Credit Fund II, Ltd.                   | Florida                               | RJTFCF  |
| Gateway Tax Credit Fund III, Ltd.                  | Florida                               | RJTFCF  |
| Gateway Tax Credit Fund, Ltd.                      | Florida                               | RJTFCF  |
| Heritage Asset Management, Inc. ("HAM")            | Florida                               | RJF   |
| Heritage Fund Distributors LLC                     | Florida                               | RJA   |
| Heritage Fund Distributors, Inc.                   | Florida                               | HAM   |
| Heritage International Limited                     | Mauritius                             | RJIH  |
| Pine Creek Healthcare Capital, Inc.                | Florida                               | RJF   |
| Planning Corporation Of America                    | Florida                               | RJA   |
| Raymond James & Associates, Inc.                   | Florida                               | RJF   |
| Raymond James (USA) Ltd.                           | Canada                                | RJ LTD  |
| Raymond James Argentina Sociedad De Bolsa, S.A.    | Argentina                             | Raymond James South American Holdings, Inc. ("RJSAH") |
| Raymond James Bank, FSB                            | Florida                               | RJF   |
| Raymond James Capital Inc.                         | Delaware                              | RJF   |
| Raymond James Credit Corporation                   | Delaware                              | RJF   |
| Raymond James Development Tax Credit Fund, LLC     | Delaware                              | RJTFCF  |
| Raymond James Euro Support Limited                 | Ireland                               | RJA   |
| Raymond James European Holdings, Inc. ("RJEH")     | Florida                               | RJIH  |
| Raymond James Financial International, Ltd. (U.K.) | U.K.                                  | RJIH  |
| Raymond James Financial Management Ltd.            | Canada                                | RJ LTD  |
| Raymond James Financial Planning Ltd.              | Canada                                | RJ LTD  |
| Raymond James Financial Services, Inc.             | Florida                               | RJF   |
| Raymond James Financial, Inc.                      | Florida                               | N/A   |
| Raymond James Geneva S.A.                          | Switzerland                           | RJA   |
| Raymond James Global Advisors Ltd.                 | British Virgin Islands                | RJIH  |
| Raymond James Global Securities, Limited           | British Virgin Islands                | RJIH  |

| Entity Name   | State/Country of Incorporation | Subsidiary or Joint Venture of                              |
|---|--------------------------------|---|
| Raymond James Holdings (Canada), Inc. ("RJ HOLDINGS")                           | Canada                         | RJF   |
| Raymond James International Holdings, Inc.                                      | Delaware                       | RJF   |
| Raymond James Investment Services Limited                                       | U.K.                           | RJF   |
| Raymond James Latin Advisors Limited  | British Virgin Islands         | RJSAH   |
| Raymond James Latin America S.A.  | Uruguay                        | RJSAH   |
| Raymond James Latin Fund Advisors SA  | British Virgin Islands         | RJSAH   |
| Raymond James Ltd   | Canada                         | RJ HOLDINGS   |
| Raymond James North Carolina Tax Credit Fund, LLC                               | Delaware                       | RJTFCF  |
| Raymond James Partners, Inc.  | Florida                        | RJF   |
| Raymond James Patrimoine, S.A.  | France                         | RJIH  |
| Raymond James Securities - Turkey (Raymond James Yatırım Menkul Kıymetler A.S.) | Turkey                         | RJEH  |
| Raymond James South American Holdings, Inc.                                     | Florida                        | RJIH  |
| Raymond James Tax Credit Fund 32 - A, LLC                                       | Delaware                       | RJTFCF  |
| Raymond James Tax Credit Fund 32 - B, LLC                                       | Delaware                       | RJTFCF  |
| Raymond James Tax Credit Fund XX, LP  | Delaware                       | RJTFCF  |
| Raymond James Tax Credit Fund XXII, LLC   | Delaware                       | RJTFCF  |
| Raymond James Tax Credit Fund XXV - A, LLC                                      | Delaware                       | RJTFCF  |
| Raymond James Tax Credit Fund XXV - B, LLC                                      | Delaware                       | RJTFCF  |
| Raymond James Tax Credit Funds, Inc.  | Florida                        | RJF   |
| Raymond James Trust Company   | Florida                        | RJF   |
| Raymond James Trust Company West  | Washington                     | RJF   |
| Residual Partners   | Florida                        | RJF   |
| RJ Canada LP  | Alberta                        | 3051862 Nova Scotia Company and 3051863 Nova Scotia Company |
| RJ Canada, Inc.   | Florida                        | RJF   |
| RJ Capital Services, Inc.   | Delaware                       | RJF   |
| RJ Communication, Inc.  | Florida                        | RJF   |
| RJ Delta Capital S.A.   | Argentina                      | RJSAH   |
| RJ Delta Fund Management S.A.   | Argentina                      | RJSAH   |
| RJ Equities, Inc.   | Florida                        | RJF   |
| RJ Government Securities, Inc.  | Florida                        | RJF   |
| RJ Holdings, Ltd.   | Florida                        | Residual Partners   |
| RJ Matador, LLC   | Florida                        | RJ Specialist Corp.   |
| RJ Mortgage Acceptance Corporation  | Delaware                       | RJF   |
| RJ Partners, Inc.   | Florida                        | RJF   |
| RJ Properties, Inc.   | Florida                        | RJF   |
| RJ Specialist Corporation   | Florida                        | RJF   |
| RJ Structured Finance, Inc.   | Delaware                       | RJ Capital Services, Inc.                                   |
| RJ Ventures LLC   | Florida                        | RJF   |
| RJC Partners LP   | Florida                        | RJC Partners, Inc.  |
| RJC Partners, Inc.  | Florida                        | RJF   |
| RJEIF I, L.P.   | Delaware                       | RJEIF, Inc.   |
| RJEIF II, L.P.  | Delaware                       | RJEIF, Inc.   |
| RJEIF, Inc.   | Delaware                       | RJF   |
| Value Partners, Inc.  | Florida                        | RJTFCF  |

**EXHIBIT 23**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors  
Raymond James Financial, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-59449, 333-74716, 333-103280, 333-103277, 333-98537, and 333-125214) on Form S-8 and (No. 333-51840) on Form S-3 of Raymond James Financial, Inc. and subsidiaries of our reports dated December 14, 2006, with respect to the consolidated statements of financial condition of Raymond James Financial, Inc. and subsidiaries as of September 30, 2006 and September 30, 2005, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2006, management's assessment of the effectiveness of internal control over financial reporting as of September 30, 2006 and the effectiveness of internal control over financial reporting as of September 30, 2006, which reports appear in the September 30, 2006 annual report on Form 10-K of Raymond James Financial, Inc.

KPMG LLP

Tampa, Florida  
December 14, 2006  
Certified Public Accountants

**EXHIBIT 31.1**

**CERTIFICATIONS**

I, Thomas A. James, certify that:

1. I have reviewed this annual report on Form 10-K of Raymond James Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2006

/s/ THOMAS A. JAMES  
Thomas A. James  
Chairman and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATIONS**

I, Jeffrey P. Julien, certify that:

1. I have reviewed this annual report on Form 10-K of Raymond James Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2006

/s/ JEFFREY P. JULIEN

Jeffrey P. Julien  
Senior Vice President - Finance  
and Chief Financial Officer

**EXHIBIT 32**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Raymond James Financial, Inc. (the "Company") on Form 10-K for the year ended September 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas A. James  
Thomas A. James  
Chief Executive Officer  
December 14, 2006

/s/ Jeffrey P. Julien  
Jeffrey P. Julien  
Chief Financial Officer  
December 14, 2006

Exhibit 99(i).1

CHARTER OF THE AUDIT COMMITTEE OF THE

BOARD OF DIRECTORS

1. Mission Statement

The Audit Committee serves as the principal agent of the Board of Directors in fulfilling the Board's oversight responsibilities with respect to the integrity of the Company's financial reporting, the independent auditor's qualifications and independence, the Company's systems of internal controls, the functioning of the Company's Internal Audit Department and the Company's procedures for establishing compliance with legal and regulatory requirements.

2. Responsibilities and Duties

The Committee's responsibility is oversight, and it recognizes that the Company's management is responsible for preparing the Company's financial statements. Additionally, the Committee recognizes that financial management (including the internal audit staff), as well as the independent accountants, have more knowledge of accounting and auditing requirements and more detailed information about the Company than do the members of the Committee; consequently, in carrying out its oversight responsibilities the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the independent accountants' work.

3. Membership

The Audit Committee (the Committee) shall be comprised of at least three independent directors (in accordance with the independence standards adopted from time to time by the NYSE and SEC). The members of the Committee shall be appointed by the Board of Directors upon the recommendation of the Corporate Governance Committee and shall be persons who are financially literate, in the judgment of the Board of Directors. At least one of the members of the Committee shall be a person who, in the judgment of the Board of Directors, has accounting or financial management expertise. At least one of the members of the Committee shall be a person who, in the judgment of the Board of Directors, is qualified to serve as an audit committee financial expert under NYSE and SEC rules.

4. Meetings and Discussions

Generally, the Audit Committee shall hold formal meetings prior to each quarterly meeting of the Board of Directors and telephone meetings with the Company's Chief Financial Officer and the independent accountants prior to the release of quarterly financial results. Additional meetings, either in person or by telephone, may be held from time to time as determined by the Chair of the Committee. In addition, members of the Audit Committee are free to contact members of management including financial managers, compliance managers, the Director of Internal Audit, the Senior Vice President for Risk Management, the Company's internal and outside counsel and the Company's independent accountants whenever they consider appropriate; the Committee may request reports or presentations at Committee Meetings from any of these individuals. The Committee shall meet periodically with senior management responsible for the Company's financial reporting.

5. Financial Reporting Oversight; Relationship with Company's Independent Accountants

a. The Company's independent accountants are ultimately accountable to the Board of Directors, as representative of the Company's shareholders. The Audit Committee exercises the responsibility of the Board of Directors in that oversight role.

b. The Audit Committee shall be directly responsible for the appointment, retention, compensation, and oversight of the work of the independent accountants employed by the Company (including resolution of disagreements between management and the auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. In that connection, the independent accountants shall report directly to the Audit Committee and the Committee shall determine appropriate funding for payment of compensation to the Company's independent accountants.

c. In connection with the appointment and reappointment of the independent accountants, the Committee shall review their independence and obtain written disclosures from them regarding all relationships with the Company that could affect their independence. In that connection at least annually the Committee shall obtain and review a report by the independent accountants describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess their independence) all relationships between the independent accountants and the company.

d. The Audit Committee shall approve in advance any audit and non-audit services, including tax services, to be performed for the Company by its independent accountants, except for services that were not recognized at the time of the engagement to be non-audit services and for which the compensation does not exceed 5% of the total revenues paid to the independent accountants by the Company during the fiscal year; provided, however, that such "de minimis" services are approved by the Audit Committee or one or more members to whom authority has been granted to make such approval prior to completion of the audit. In that connection, the Committee shall receive from the independent accountants, at least annually, a written statement setting out all relationships between them and the Company and the fees paid for those services.

e. The Committee shall meet with the independent accountants on a regular basis, as it determines appropriate. At least once a year, the Committee shall meet with representatives of the independent accountants without the presence of management representatives.

f. The Committee, or one of its members, shall meet with the representatives of the independent accountants prior to commencement of the annual audit in order to review the audit scope and approach, and any specific areas of risk that the auditors propose to focus on.

g. Following conclusion of the year-end audit, but prior to release of the financial statements, the Committee, or one of its members, shall discuss with representatives of the independent accountants the financial statements and the results of the audit, including any disagreements with management regarding audit scope or accounting presentation.

h. Prior to release of the financial results and related press releases for each quarter and the fiscal year the Committee, or one of its members, shall review them with management and representatives of the independent accountants, and shall review with them the "Management's Discussion and Analysis" section of the Company's filings with the SEC. The Committee shall also discuss financial information and any earnings guidance provided to rating agencies and analysts.

i. At least annually, the Committee shall review with representatives of the independent accountants their judgments concerning the quality of the Company's accounting principles as reflected in its financial reporting, whether those principles are consistent with industry standards or represent minority positions, and the clarity of disclosure of information. The Committee shall also review with the independent accountants their views regarding any significant estimates made by management which are reflected in the financial statements.

In that connection, the Audit Committee shall review with the independent accountants:

(1) All critical accounting policies and practices to be used;

(2) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the Company, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountants; and

(3) Other material written communications between the independent accountants and the management of the Company, such as any management letter or schedule of unadjusted differences.

Based on the review and discussions described above, the Committee shall recommend to the Board of Directors whether the financial statements should be included in the Annual Report on Form 10-K.

j. At least annually, the Committee shall receive from the independent accountants a report of their recommendations to improve the Company's internal control structure and operational efficiency. The Committee shall obtain and review management's response to these recommendations.

k. The Committee shall approve in advance any proposed hiring by the Company of an employee or former employee of the Company's independent accountants.

#### 6. Oversight of the Internal Audit Department, Internal Controls and Risk Management

a. The Committee shall have oversight responsibility with respect to the Company's Internal Audit Department. In that connection, the Committee shall maintain regular contact with the Director of Internal Audit and meet with her/him at least once a year without the presence of management representatives.

b. The Committee shall receive and review reports from the Internal Audit Department with respect to the results of audits undertaken and management's response to recommendations from the Department. The Committee shall have the authority to direct the Internal Audit Department to undertake specific projects, including review of specific departments of the Company.

c. The Committee shall receive regular reports from the Senior Vice President for Risk Management and review periodically the Company's policies with respect to risk assessment and risk management.

d. The director of internal audit and Senior Vice President for Risk Management shall have access to the members of the Audit Committee on a direct basis as necessary, and shall attend meetings of the Committee as requested by the Committee.

#### 7. Oversight of the Compliance Departments of Major Subsidiaries and Divisions, and Legal and Regulatory Matters.

a. The Committee shall receive reports from the Company's General Counsel regarding activities of the compliance directors of the broker-dealers and major subsidiaries and divisions of the Company. At least once a year, the compliance directors shall submit reports to the Committee on activities undertaken during the year, any regulatory problems encountered and regulatory issues that may affect the Company in the future.

b. The Committee shall receive regular reports from the Company's General Counsel regarding material legal and regulatory matters.

## 8. Other Responsibilities

a. The Committee shall establish and review procedures for:

(1) The receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and

(2) The confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

b. At least annually, the Committee shall receive reports from Senior Financial Officers of the Company regarding their compliance with the code of ethics for Senior Financial Officers. The Committee shall report material violations of the Code of Ethics that are brought to their attention to the Board of Directors with a recommendation for appropriate action.

c. At least annually, the Committee shall review with the Company's Chief Executive Officer and Chief Financial Officer the certifications they sign in SEC reports regarding the Company's disclosure controls, the design and operation of the Company's internal controls and any material weaknesses they have identified, or any fraud involving management or other employees they have identified during the course of their review of the Company's controls.

d. The Committee shall prepare an annual report to be included in the Company's annual proxy statement to shareholders.

## 9. General

a. In exercising its oversight responsibility, the Committee shall have access to members of management and may inquire into any issues that it considers to be of material concern to the Committee or the Board of Directors.

b. The Committee shall have authority to conduct or authorize investigations into any matters within its scope of responsibilities and to retain advisers, including counsel and other professionals, to assist in the conduct of any investigation and determine their compensation.

c. The Committee shall report regularly to the Board of Directors with respect to its activities.

d. The Committee shall review this charter annually and make changes as it considers appropriate.

e. The Committee shall participate in an annual performance evaluation of its activities by the Board of Directors.

**CHARTER OF THE CORPORATE GOVERNANCE, NOMINATING AND COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS**

Mission Statement

The Corporate Governance, Nominating and Compensation Committee (the Committee) serves as the principal agent of the Board of Directors in reviewing the compensation structure for the Company's senior executives, including the CEO, reviewing employee compensation and benefit programs and recommending corporate governance policies and practices to the Board of Directors. The Committee also reviews the qualifications and background experience of proposed candidates for the Board of Directors of the Company, and is authorized to seek out and recommend candidates to the Company's shareholders.

Membership

The Committee is comprised solely of independent directors as determined in accordance with the independence standards adopted by the New York Stock Exchange and the Securities and Exchange Commission. Members of the Committee and the Chair of the Committee are appointed by the Board of Directors.

Duties and Responsibilities

The Committee shall have the following duties and responsibilities:

Compensation Responsibilities

Approve the compensation structure for senior management.

Establish criteria for the compensation of the CEO and determine his compensation based on an annual review of his performance.

Review succession plans for the senior management of the Company, including the CEO.

Review and approve all equity compensation plans, including IRS qualified and non-qualified plans.

Review and recommend for Board action all grants of stock options or restricted stock awards, except new-hire grants made by senior management pursuant to delegated authority.

Review and recommend for Board action the Company's contributions to employee benefit plans.

Serve as the policy making body for issues that arise under any of the Company's employee benefit, stock option or other employee plans.

Produce a report on executive compensation for the Company's proxy statement.

Exercise sole authority to retain and terminate any compensation consultant to be used to assist in the evaluation of director, CEO or executive officer compensation, including sole authority to approve the fees and other terms of such consultant's engagement.

Nominating and Corporate Governance Responsibilities

Identify potential nominees to the Board of Directors, including candidates recommended by management, review their qualifications and experience, determine their independence as required under New York Stock Exchange Rules, and recommend a slate of nominees to the Board of Directors for consideration and presentation to the shareholders for election.

Review succession planning for the CEO and other senior management positions.

Develop corporate governance policies and monitor compliance with those policies.

Lead the Board of Directors in an annual review of the performance of the Board and each of the Board Committees.

Periodically review the Company's ethics policy and make recommendations for changes to the Board of Directors when necessary.

Make recommendations to the Board of Directors with respect to Director compensation. Director compensation should be based on reasonable compensation to members of the Board for time spent in attending meetings of the Board and Board Committees, as well as the time required for them to effectively perform their responsibilities and duties. In reviewing Director compensation, the Committee will consider the impact of compensation levels and any contributions to charitable organizations with which any Director may be affiliated on Director independence.

Exercise sole authority to retain and terminate any search firm to be used to identify director candidates, including sole authority to approve the fees and other terms of such firm's engagement.

#### General

Report to the Board of Directors with respect to the Committee's activities.

Report to the Company's shareholders in the annual proxy statement.

Regularly review the Committee's Charter.

Retain outside advisers when it considers such services to be necessary.

#### Meetings

The Committee shall meet as frequently as its responsibilities require. Generally, the Committee shall meet quarterly, prior to each meeting of the Board of Directors, and hold an additional meeting to review proposed incentive compensation awards for senior management. The Committee may meet in person or by telephone.

As amended by the Board of Directors on 11/28/2006