Appendix D - UNIVERSITY HONORS PROGRAM
SENIOR PROJECT - APPROVAL

Name: ~~Ramon P. DeGennaro~~ MARK Muth

College: ~~Finance~~ Business Department: Finance

Faculty Mentor: RAMON P. DeGennaro

PROJECT TITLE: Fundamental Analysis of Raymond James Financial.

I have reviewed this completed senior honors thesis with this student and certify that it is a project commensurate with honors level undergraduate research in this field.

Signed: Ramon P. DeGennaro, Faculty Mentor

Date: 5/12/99

Comments (Optional):

Fundamental Analysis of Raymond James Financial

Mark A. Muth
University Honors Program
Spring Semester 1999

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Introduction

Raymond James Financial is a financial service holding company based in St. Petersburg, Florida. Raymond James is involved in the securities brokerage business, including the underwriting, distribution, trading, and brokerage of equity and debt securities and the sale of other investment products. The company's common stock is traded under the symbol RJF on the New York Stock Exchange (NYSE). Although the outlook of the economy as a whole and the outlook of the regional brokerage business in the Southeast are bright, this stock is not a particularly strong choice for investment at this time.

United States Economy

The United States economy seems to be in fairly good shape these days. The first gauge of the economy is the unemployment rate. Unemployment is at the lowest levels in many years with only 4.2% of the workforce being without a job (White House). This indicates a fairly stable labor market where jobs are being created at a quicker pace than existing positions are being terminated. Next, several income statistics show positive movement as well. For example, Disposable Personal Income rose 0.5% last month at a seasonally adjusted monthly rate following an increase of 0.6% the previous month (White House). Per Capita Real Disposable Income increased $88 at a seasonally adjusted annual rate in the month of February 1999 and by $109 in January 1999. The most recently released Household Income statistics show that the real median household income reached its "1989 prerecessionary peak" after an annual increase of 1.9% to $37,005. These statistics show modest increases in the incomes of Americans. The increases in income allow Americans to spend more which in turn keeps the economy running at the higher pace. However, to put these increases in perspective, one must also look at inflation rates or price indexes. In March 1999 the Consumer Price Index showed an increase of 0.2 % in all items on a seasonally adjusted basis (White House). This change followed an increase of 0.1% the previous month. The Producer Price Index, which measures finished goods on a seasonally adjusted basis, also increased by 0.2% in March following a decrease of 0.4% in February 1999. U.S. purchasers paid an increase of 0.9% and 0.7% for final goods and services as measured by the Gross Domestic Purchases Prices Index in the Fourth and Third Quarters of 1998 respectively. Interest Rates also are very low levels with the most recent Federal Reserve Statistical Release listing the Prime Rate at 7.75% (Federal Reserve). This release also shows that the yield curve as displayed by U.S. Treasury securities is rather flat with a slight upward slope. These price indexes coupled with the flat yield curve seem to indicate that inflation is well under control at the present time. Furthermore, since the Producer Price Index traditionally runs ahead of the Consumer Price Index, one can forecast that inflation will not pose too large of a threat in the immediate future and should not presently be a major worry of investors. This is a sentiment that the yield curve seems to substantiate. These small price changes coupled with the slightly higher changes in income indicate a generally positive movement in the economy. Therefore, one can infer that overall the economy appears to be healthy with no obvious signs of stalling. Even though growth might slow down some, it should, nonetheless, continue. Investors have no real reason to worry in the foreseeable future.

Financial Services Industry

Like the economy as a whole, the financial services industry can look forward to the future. The industry is currently enjoying a era of great prosperity and profit taking. The regional financial services industry in the Southeast can look at the future with even brighter eyes. The economy in the south continues to be one of the leading areas in the country as far as growth and prosperity are concerned. The Southeast economy posted moderate growth in the winter of 1999 and expectations were upbeat for "near-term outlook" (Sixth District).

The success of the industry is directly attributed to the stock market. "With strong equity markets, individuals and institutions actively bought and sold stocks and corporations issued new securities. This actively stimulated results across brokerage firm's commissions, trading, net interest, and investment banking lines" (Huberman). The first aspect of this success is revenue from commissions. The Standard and Poor's 500 Index recorded a double digit increase for the fourth consecutive year in 1998 (Smith). International Markets also began to recover in the later months of last year further adding to the market success. Due to this strong bull market on Wall Street, Americans continue to live out their love affair with stocks. Investment Services companies receive the majority of their profits from the commissions they charge on the purchase and sale of stock. In fact, commissions are commonly referred to as the industry's money machine. The only negative aspect on the commissions front was the increased presence of on-line discount brokers. However, these on-line brokers, such as E*Trade, accounted for only 1.4% of trades in 1997 and projections show this share only reaching 5% in 2002. Therefore, these new entrants into the market should not damage traditional brokers too dramatically. The next aspect of this success comes from investment banking activities involving mergers and acquisitions. Corporations continued to set a record pace for mergers and acquisitions in 1998 for the third straight year. Investment bankers receive significant fees for their roles in these activities. The recent increase of merger and acquisitions is attributed to "the availability of attractive financing, the strong economy, management's desires to increase growth rates, ad the threat of overseas competition" (Huberman). Investment banks also received significant income from debt and equity issues. In 1997, investment bankers set the all-time record for capital raising by eclipsing the $472 Billion mark. This trend may have slowed some recently but remains an active part of the industry. Similarly, fee income from debt issues have been up in recent years. This increase "reflects the current trends toward corporate bonds as corporations take advantage of low long-term interest rates to refinance older, more costly debt" (Huberman). The final strong point for the industry is trading income. This income comes from the trading of securities held by the financial services firms. The firms benefited, like most Americans, from the dramatic increases that the stock market has been experiencing for the past few years.

The financial services firms have also encountered a few problems in the last few years. The first problem is a decrease in net interest income. The firms are restrained by the tight yield curve. The flat yield curve is partly the result of investors fleeing from the turmoil of international markets, especially the Asian markets. This flight to safety caused an increase in demand for U.S. Treasury securities and helped flatten the yield curve. Furthermore, "a continuation of the flat yield curve is a distinct negative. Brokers will be limited in their ability to book trading gains, and financing spreads will remain compressed" (Huberman). Similarly, investors fled from international mutual funds to money market and bond funds. These money market and bond funds charge significantly lower management fees than the international growth funds, which triggered a decrease in asset management income. Finally, financial services firms must deal with employee compensation issues. A well-known cliché in the financial services industry is that " the assets walk out the door every night." This cliché is only too true. The most significant costs for financial services firms are these employee compensation costs. The firms have just completed a recent string of new hires instigated by high corporate profits. Employees also came to expect annual increases well above inflation rates. Both of these factors caused significant increases in these costs. This problem while not so blatant now will only magnify any loss of earnings suffered should markets slow or stall.

Despite these small problems, current industry trends point to continued success ahead. First, like most industries financial services firms are trying to become more international. They hope this globalization will open new markets and profit taking opportunities (Fruchter). Next, forecasts show that the supply of investable funds will continue to increase for the remainder of the decade and continue well into the next decade (Huberman). The main reason for this increase is the baby boomers. This demographic group has historically undersaved. Now as they enter their peak earning years they are expected to continue large scale investing. High investment levels will only be boosted by concerns over the impending failure of social security. Finally, several brokerage trends will boost profitability. The industry is continuing to try to reduce cyclicality, to increase technological and financial innovations, and to control margin pressures in key businesses (Huberman). Overall, the future looks bright for the financial services industry.

Raymond James Financial

Despite the promising outlook of the economy and the industry, Raymond James Financial gives mixed signals to the market and its common stock continues to struggle. The best way to begin to study a financial services company is to compare its stock to the market as a whole through an index such as the S&P 500 (Appendix 1). Although for the most part Raymond James's stock followed the trends of the S&P 500 Index, it did show some recent fluctuations where the stock moved opposite the index. These movements were a result of several problems related to the company's financial performance. The main problem with Raymond James continues to be earnings pressures. Revenues eclipsed $1 Billion for the first time in 1998 (Appendix 2). Despite this 21% increase in revenues in 1998, net income fell 6%. However, if you remove a non-recurring event from 1997, revenues only rose 17% and net income rose 16%. Earnings per share were $1.92 on the undiluted basis and $1.86 on a diluted basis (again excluding the non-recurring event from 1997). This represented an 8% and 9% increase respectively. Return on Equity was 18.2%. The common stock recently showed a 12-month Price to

Earnings (P/E) Ratio of 10.4. The stock also has a beta well over 1 (in the 1.5-1.7 range depending on the source).

Raymond James earnings success can be attributed to several key factors. First, Raymond James continued to emphasize commission income by increasing the number of financial advisors by 10% to 3,250 located in 1,070 branches in all 50 states. In fact, commission income from these advisors accounted for 58% of revenues in 1998 (Appendix 3). Raymond James has continued this increase of financial advisors in 1999 with the acquisition of the Midwestern firm Roney & Co (Roney). The addition of these brokers should open up markets in Ohio, Michigan, and Indiana thereby boosting commission income. Similarly investment advisory income rose by 44%. Another significant increase in terms of percentage came in interest income as it grew by 30% over the previous year's level.

Not all of the revenue categories showed improvement, however. Raymond James showed a 51% decrease in trading profits. This decrease came despite an industry trend in the opposite direction. However, the majority of their problems seem to be with the investment banking portion of the company. The investment banking sector of the firm again bucked the industry trend of huge increases by showing a slight decrease in revenues of 1%. Raymond James showed an even larger decrease of 60% in the first quarter of 1999 (Qtrly Results). This decrease is most likely attributed to the most common clientele of Raymond James' investment banking operations, real estate and energy industries (Fruchter). These two sectors are still out of favor with investors despite the stock market's recent rebound following the Asian crisis.

The company's performance also must be examined in terms of expenses. Raymond James incurred an increase of 22% in total expenses. Total employee compensation costs increased 21% over the previous year with sector increases of 25% for sales commissions, 25% for administrative and benefit costs, and 1% for incentives. Following the opening of the third tower at the corporate headquarters in St. Petersburg, occupancy and equipment costs rose 22%. This increase also reflects the addition of the new financial advisors and offices. Last, business development costs increased 52%. Much of this increase is attributed to the opening of Raymond James Stadium in Tampa, which is the home of the NFL's Tampa Bay Buccaneers. Raymond James feels this commitment to branding is vital to their successs and they feel this stadium sponsorship provides a very good value.

The remainder of Raymond James's mixed signals are explained by some unique events which occurred over the past year. Raymond James continued its attempt to stay ahead of the game technologically by installing the advanced equity information system Reuters Plus (Reuters). Also, Raymond James completed the installation of all changes necessary to address the Year 2000 Problem and began all final testing during the past year. Next, Raymond James began a joint venture in Argentina with Eduardo Tapia. The joint venture operating under the name Raymond James Argentina Sociedad de Bolsa S.A. will be a full service firm in Argentina and act as Raymond James's entry point into the Latin American market. On the other hand, Raymond James closed the doors of its joint venture in South Africa, Raymond James Stewart, resulting in a $2 Million in losses over the life of the company. Then, Raymond James sold the RJ Properties subsidiary as well as its specialist operations on the Chicago Exchange. Finally, Raymond James renamed all three of its financial advisory firms under the Raymond James moniker to take full advantage of its branding commitment.

Conclusion

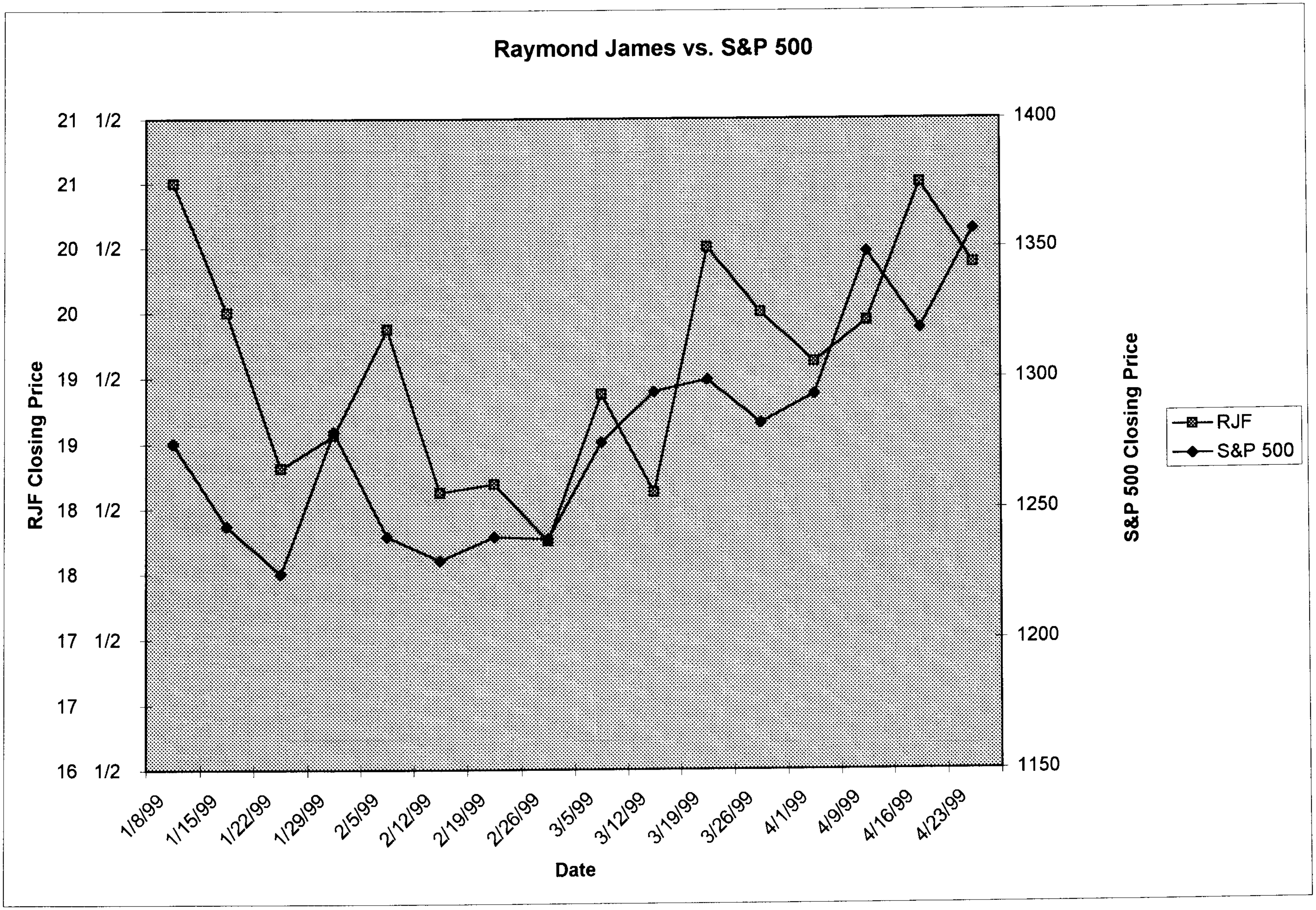
Raymond James has many good things going for it as it enters the fiscal year 1999. Both the United States economy and the financial services industry continue to perform very strongly. Despite this positive environment, mixed signals and results continue to plague Raymond James. Therefore, Raymond James is not a particularly strong choice for investment at this time. Raymond James needs to work out many of its internal difficulties and profitability issues before investors should seriously consider this stock for investment.

Appendix 1:

Raymond James Stock Performance vs. S&P 500

Raymond James vs. S&P 500

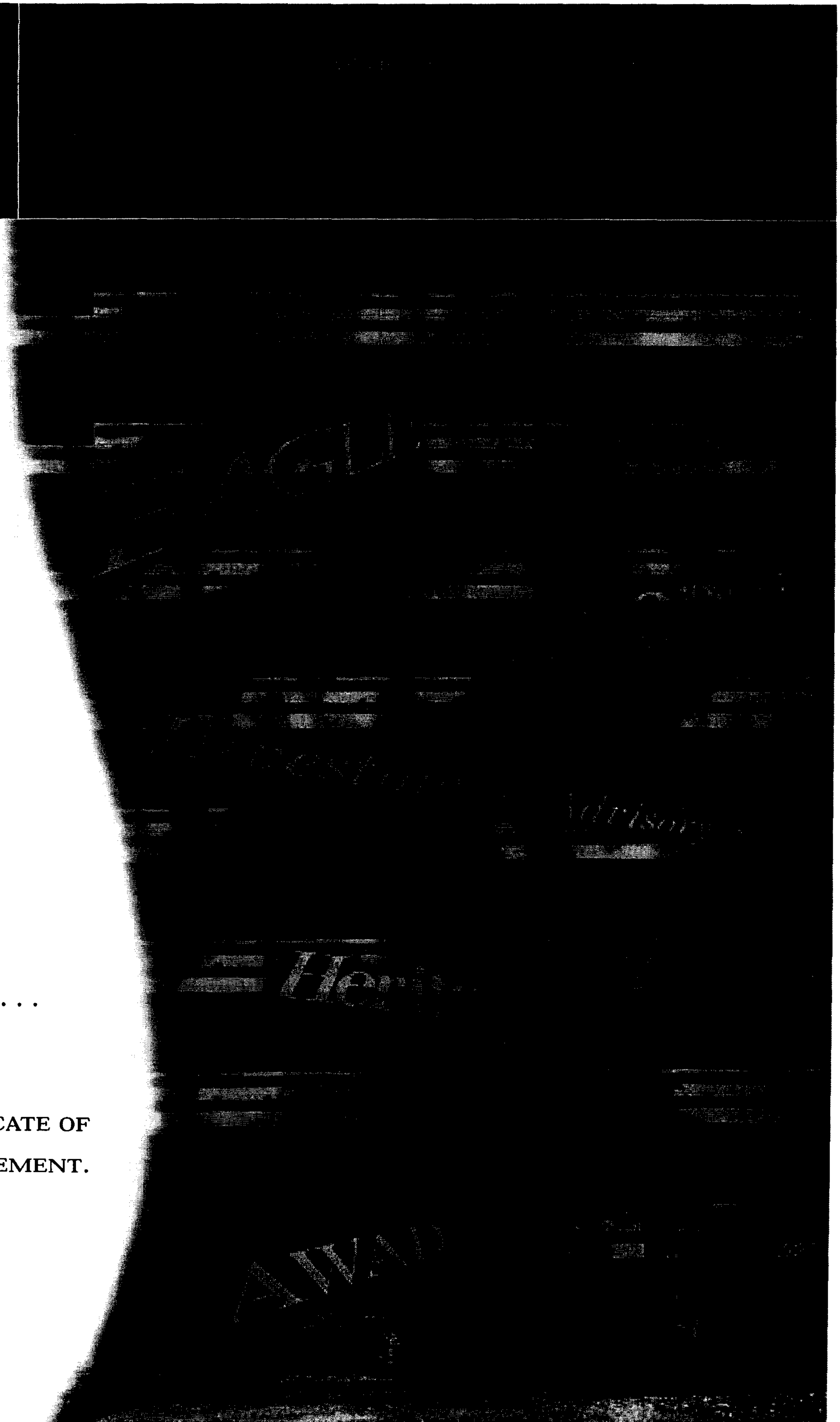
Date	RJF	S&P 500
1/8/99	21	1275 3/32
1/15/99	20	1243 17/64
1/22/99	18 13/16	1225 3/16
1/29/99	19 1/16	1279 41/64
2/5/99	19 7/8	1239 13/32
2/12/99	18 5/8	1230 1/8
2/19/99	18 11/16	1239 7/32
2/26/99	18 1/4	1238 21/64
3/5/99	19 3/8	1275 15/32
3/12/99	18 5/8	1294 19/32
3/19/99	20 1/2	1299 19/64
3/26/99	20	1282 51/64
4/1/99	19 5/8	1293 23/32
4/9/99	19 15/16	1348 11/32
4/16/99	21	1319
4/23/99	20 3/8	1356 27/32


Raymond James vs. S&P 500
RJF Closing Price
21 1/2
21
20 1/2
20
19 1/2
19
18 1/2
18
17 1/2
17
16 1/2
S&P 500 Closing Price
1400
1350
1300
1250
1200
1150
1/8/99
1/15/99
1/22/99
1/29/99
2/5/99
2/12/99
2/19/99
2/26/99
3/5/99
3/12/99
3/19/99
3/26/99
4/1/99
4/9/99
4/16/99
4/23/99
Date
RJF
S&P 500

Appendix 2:

Raymond James Annual Report – Feature Section

Annual Report



A LEADER IN
FINANCIAL SERVICES . . .

AN ADVOCATE OF
ASSET MANAGEMENT.

Raymond James Financial, Inc. and Subsidiaries

Financial Highlights

For The Year	1998	1997	% Increase (Decrease)
Total Revenues	$1,082,907,000	$ 927,607,000**	17%
Net Income	$ 92,704,000	$ 98,915,000**	(6%)
Net Income Per Share* – basic	$ 1.92	$ 2.09**	(8%)
Net Income Per Share* – diluted	$ 1.86	$ 2.04**	(9%)
At Yearend			
Shareholders' Equity	$ 509,898,000	$ 423,276,000	20%
Shares Outstanding	48,268,000	47,696,000	–
Shareholders' Equity Per Share*	$ 10.56	$ 8.87	19%

* Gives effect to all stock splits.

** Amounts exclude the $30.6 million gain from the sale of Liberty Investment Management, Inc. See Notes to the Consolidated Financial Statements, included in this annual report, for details.

Corporate Profile

Raymond James Financial is a diversified financial services holding company whose subsidiaries engage primarily in investment and financial planning, including securities and insurance, brokerage, investment banking, asset management, banking and cash management, and trust services. With more than 3,200 Financial Advisors in over 1,000 offices located throughout the United States and internationally, its broker-dealer subsidiaries provide their services to more than 800,000 individual and institutional accounts. The firm's asset management subsidiaries manage in excess of $11 billion for individuals, pension plans and municipalities. Established in 1962 and a public company since 1983, Raymond James Financial is listed on the New York Stock Exchange and its shares are currently owned by more than 10,000 individual and institutional investors.

Dear Fellow Shareholders:

Thomas A. James
Chairman

Although our fiscal fourth quarter results were hampered by extreme volatility and a material correction in the securities markets, the financial results for the first three quarters and the entire year were generally successful for the securities industry. The major exceptions were the large investment banks, some of which suffered substantial losses from lending to highly leveraged hedge funds, losses in emerging country and high yield debt, and the general absence of investment banking revenues. As a result, those firms experienced 50-to-65% decreases in their stock prices. With 50% of all over-the-counter stocks down more than 30% from their highs of the year, investors' negative perceptions were exacerbated further as the outlook for stock market performance in 1999 was bleak. Fortunately, Raymond James Financial avoided most of those potholes. Both revenues and net operating income attained record levels.

Exclusive of the Liberty Investment Management sale in 1997, revenues increased 21% to $1,083,000,000. Concurrently, net income rose 16% to $92,700,000, although net income fell 6% when that non-recurring event was included. Fully diluted recurring net income per share increased 12% to $1.86. The after-tax margin on revenues was almost 8.6% and the rate of return on average equity was 19.8%. At the September 25 yearend, the book value per share was $10.56, adjusted for the three-for-two split in April 1998. The earnings results were particularly noteworthy given the increase in occupancy costs associated with the addition of 300,000 square feet and all the attendant investment in furniture, equipment and improvements at our headquarters complex. In fact, we added a record $46 million to our fixed asset ledger in 1998.

For the year, our three broker-dealers increased total commissions 23%, investment advisory fees expanded 44% and net interest grew 30%. The combined effects of these increments offset the 51% decline in principal trading profits, a small decline in investment banking revenues and a 22% increase in total expenses.

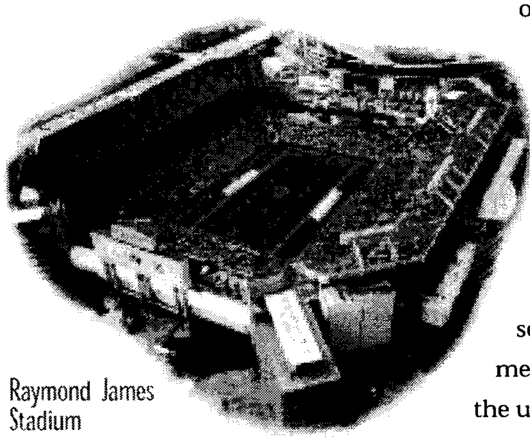
1998 Events, accomplishments and undertakings.

A number of notable events occurred in 1998. Some of the most important follow:

- Revenues exceeded $1 billion for the first time. The increase is partially due to a 10% increase in Financial Advisors to 3,250. They are based in 1,070 branches in all 50 states.

- We completed and occupied Tower III, a 270,000 square-foot addition to our headquarters complex, as well as a 24,000 square-foot building which houses our bank and trust companies.

- A decision was reached to consolidate our two independent contractor broker-dealers, Investment Management & Research and Robert Thomas Securities, under the banner of Raymond James Financial Services. While they will continue to operate as separate divisions, all three of our securities firms will benefit from consolidated advertising under the Raymond James brand.



Raymond James Stadium

- The new Tampa Bay Buccaneer stadium was named Raymond James Stadium. Although the initial annual cost of $2.15 million, which escalates at 4% annually, is our largest commitment to branding, we are satisfied that we are receiving good value.

- On a somber note, the eight-year-old Cascade class action lawsuit was settled by us for $9 million. While management believed its position was meritorious, the magnitude of a possible award in excess of $200 million dictated the unpleasant settlement.

- Raymond James Stewart, our South African joint venture, ceased operations as its management suffered from internal conflict. Raymond James Financial has sustained approximately $2 million in losses over the life of the investment.

- Our specialist operations on the Chicago Exchange were sold for a $2.4 million profit. The rest of our specialist and exchange floor operations made good contributions to our results.

- Total financial assets under management grew by 22% to $11.2 billion, including Eagle Asset Management's 30% increase to $5.2 billion, even after the market value erosion in the fourth quarter. Eagle raised more than $1 billion in new retail assets, which represented a 102% increase over sales in the prior year. Moreover, institutions selected Eagle to manage over $220 million of assets.

- Heritage Asset Management increased 1998 sales of its family of funds by 48% over the prior year as its performance excelled. Three new funds – Heritage Mid-Cap Growth, Heritage Aggressive Growth and the First Puerto Rico Growth and Income – were launched successfully.

- Assets in our Passport Investment Account, which offers a fee-based compensation system versus normal transaction based commissions, surpassed $3 billion.

- The dismal relative performance of small- and mid-cap stocks tarnished our equity research results as our *Focus List* was in last place in the September quarter. While our analysts may have received a dose of humility, our research picks will be more volatile than the large-cap universe. On the other hand, their relatively low prices could augur well for superior performance in the future.

- The sale of RJ Properties' operations generated $2.7 million in net income. Although we would have preferred to remain in the real estate portfolio and property management businesses, market conditions dictated the decision.
- All of the programming necessary to address the Year 2000 problem has been completed and we are testing with the industry depositories, exchanges and clearing systems.
- In September, Raymond James organized a 50% owned joint venture, Raymond James Argentina Sociedad de Bolsa SA, with Eduardo Tapia, who had been the head of Caspian Latin America, and Consultores Asset Management. This is our first venture into Latin America. While the venture will initially concentrate on institutional business, the goal is to be a full-service firm in Argentina, as well as to pursue other business in Latin America.

The theme of this year's annual report is asset management. Investment performance is a prime differentiator among financial service firms and our internal managers have excellent long-term records. At Raymond James, we offer internal and external managers in many vehicles in order to achieve the goals of each of our clients. In essence, we have a "needs driven"– not a "product driven"– culture.

As of the date of this letter, the market has recently suffered a dramatic decline and an explosive rebound. Unfortunately, even with lower interest rates, larger capitalization stocks are again highly valued contrasted to historical measures and the outlook for corporate earnings remains unexciting. Thus, it is likely that the markets will experience continued volatility and downside risk. Nonetheless, we remain confident that the future is bright for the industry and Raymond James.

Best wishes for a happy, healthy and prosperous 1999.

Sincerely,

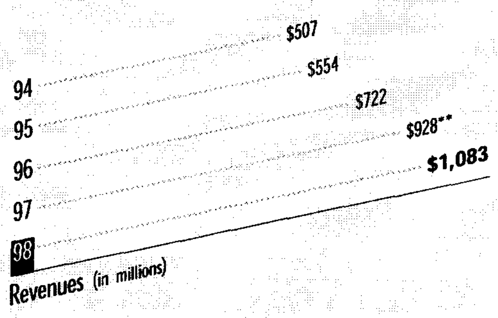
Thomas A. James

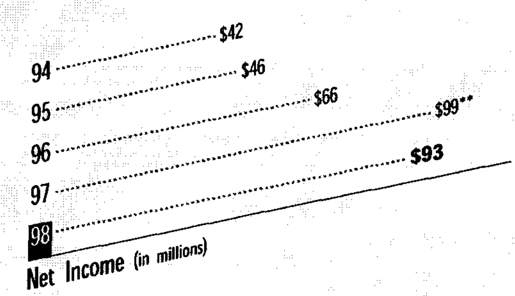
Thomas A. James
Chairman
December 1, 1998

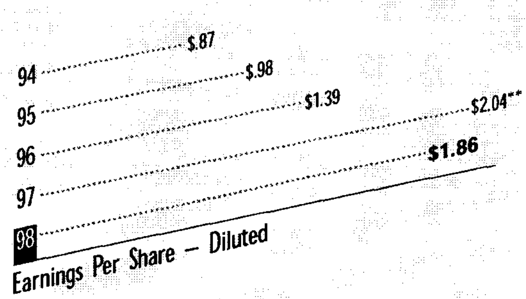
10-Year Financial Summary

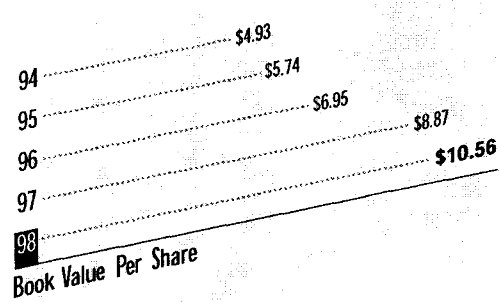
For the Year	1989	1990	1991	1992
Total Revenues	$ 226,366,000	$ 256,682,000	$ 286,048,000	$ 361,134,000
Net Income	$ 12,428,000	$ 17,947,000	$ 26,735,000	$ 41,022,000
Net Income Per Share*				
Basic	$ .29	$ .41	$ .56	$ .84
Diluted	$ .26	$ .37	$ .55	$ .83
Cash Dividends Per Share*	$ .03	$ .03	$ .05	$ .07

At Yearend				
Shareholders' Equity	$ 71,567,000	$ 96,766,000	$ 122,115,000	$ 160,935,000
Shares Outstanding*	42,366,000	46,504,000	46,913,000	47,753,000
Shareholders' Equity Per Share*	$ 1.69	$ 2.08	$ 2.60	$ 3.37
Stock Price*	$ 2.42	$ 2.06	$ 5.16	$ 5.07





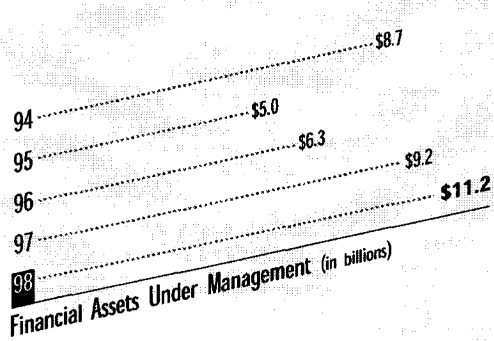


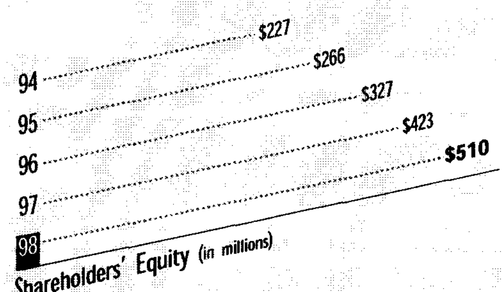


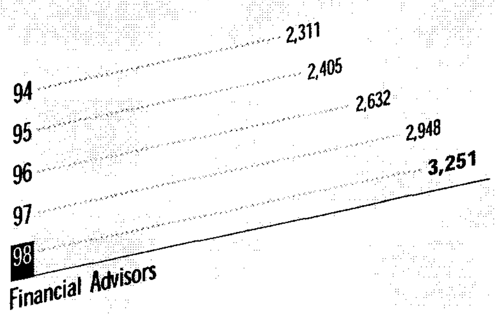
* Gives effect to all stock splits.

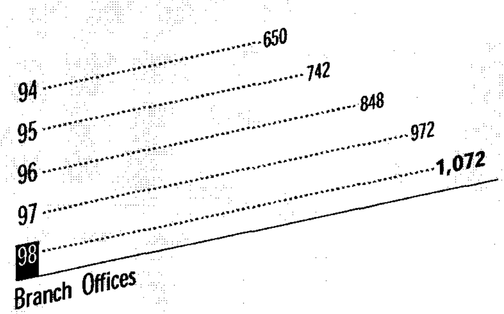
** Amounts include the $30.6 million gain from the sale of Liberty Investment Management, Inc. Excluding this gain, revenues were $896,961,000, net income was $ 80,126,000 and diluted net income per share would have been $1.66. See notes to the Consolidated Financial Statements, included in this annual report, for details.

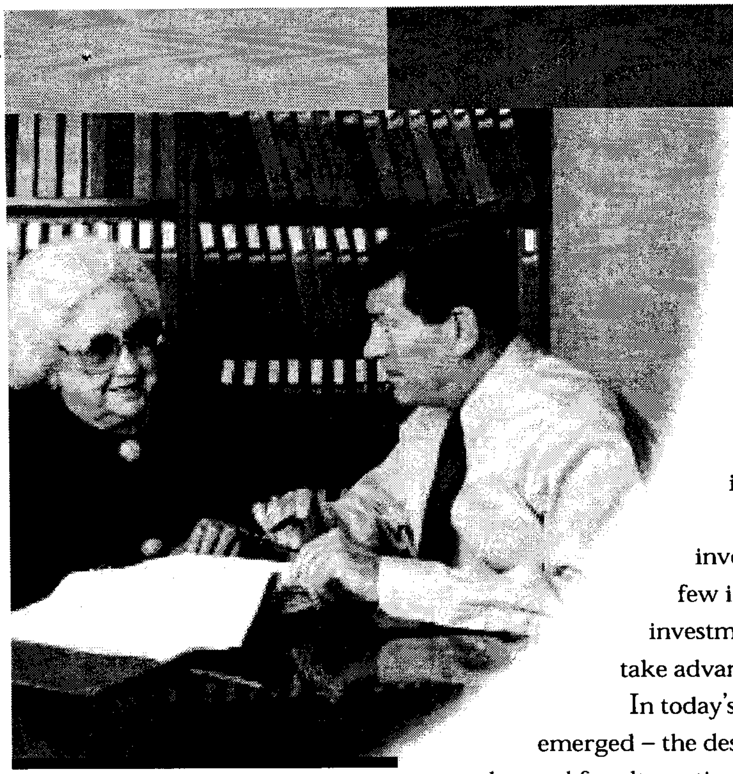
1993	1994	1995	1996	1997	1998
$ 451,747,000	$ 507,136,000	$ 554,070,000	$ 721,752,000	$ 927,607,000**	$ 1,082,907,000
$ 49,347,000	$ 42,069,000	$ 46,141,000	$ 65,978,000	$ 98,915,000**	$ 92,704,000
$ 1.01	$ .88	$ .99	$ 1.41	$ 2.09**	$ 1.92
$ 1.01	$ .87	$ .98	$ 1.39	$ 2.04**	$ 1.86
$ .10	$ .14	$ .16	$ .17	$ .21	$ .24
$ 205,565,000	$ 227,452,000	$ 266,193,000	$ 326,632,000	$ 423,276,000	$ 509,898,000
47,959,000	46,112,000	46,382,000	47,012,000	47,695,000	48,268,000
$ 4.29	$ 4.93	$ 5.74	$ 6.95	$ 8.87	$ 10.56
$ 8.29	$ 6.95	$ 9.67	$ 10.78	$ 23.63	$ 20.13











Setting the pace in asset management.

Increases in individual wealth, changes in investors' lifestyles and an explosion of investment choices are transforming the way investment portfolios are managed.

Dual income families and active seniors have more money to invest and are more involved in their own retirement planning, yet few investors have the time to research the thousands of available investment offerings or to constantly monitor today's volatile markets to take advantage of opportunities and avoid possible missteps.

In today's complex investment environment, two very clear trends have emerged – the desire, and need, for professional asset management and the demand for alternative pricing based on client assets rather than individual transactions. As a result, in addition to being a leader in financial services, Raymond James has long been an advocate of asset management.

Our Financial Advisors are commonly relied upon for advice on overall asset allocation and investment strategy. As their clients' portfolios have grown, so has the need for further diversification. Accordingly, Financial Advisors frequently recommend that their clients allocate specified portions of their portfolios to professional managers to invest in their respective areas of expertise.

Professional asset management involves hiring a manager to handle the day-to-day investment decision-making of all or a portion of a portfolio. Raymond James accommodates clients' needs for professional asset management in a variety of ways, including open and closed-end mutual funds, private or individually managed accounts and variable annuities.

Throughout our 36 years, Raymond James Financial has been at the forefront of the movement toward professional asset management. When Bob James founded the firm in 1962, he specialized in providing professional asset managers by offering mutual funds as an alternative to selecting individual stocks and bonds. When Tom joined his father in 1966, he was already a strong money management advocate, having successfully invested assets for several of his MBA classmates through an investment club at the Harvard Business School. That club, incidentally, is still investing through Tom.

In the span of three decades, asset management at Raymond James has grown from distributing just a handful of mutual funds to offering clients more than 7,000 funds and dozens of asset management disciplines.

"Shortly after I started with Investment Management & Research in the late 1980s, I was introduced to Herb Ehlers at Eagle Asset Management. From a single Eagle account in 1986, I now have more than $100 million in client assets under management. My success is due in large measure to the skill of Eagle's portfolio managers and to the trust placed in me by valued clients like Juanita McInnes (pictured above)."

Michael K. McMahan, CFP, CIMA
Registered Principal
Investment Management & Research
Gastonia, North Carolina

Asset management is a win-win-win situation.

There are several compelling reasons why investors are attracted to professional asset management, all of which work together to create a win-win-win situation for our clients, Financial Advisors and shareholders.

Clients appreciate the opportunity to have a portion of their investments managed by skilled professionals in a variety of asset disciplines. They also like the convenience of being charged an asset-based fee, thus eliminating concerns about transaction-related commissions and their potential conflict of interest. With fee-based accounts, all parties are on the same side of the table, all focused on the shared goal of growing the client's portfolio.

Financial Advisors benefit from professional asset management because it enables them to leverage their time more effectively and add value to the relationship through evaluating their clients' needs and goals. In addition, asset-based fees establish an annual, predictable stream of income, which enables Financial Advisors to better plan for the growth of their practices over time.

Shareholders also appreciate the fact that asset-based commission alternatives and investment advisory fees are becoming a larger percentage of revenues for the firm. This trend is conducive to future consistent results for the firm because as fee-based revenues increase, the earnings volatility associated with the traditional brokerage business decreases. Increasingly, the financial community is favorably disposed to companies exhibiting predictable, recurring income streams.

Determining a client's needs is the first step.

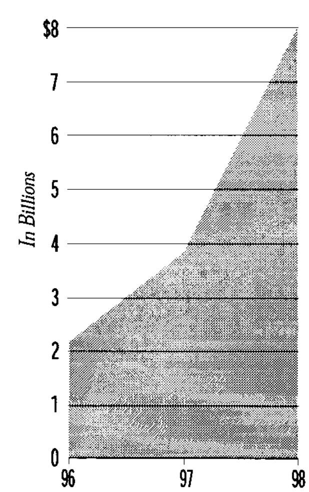
Many of our Financial Advisors specialize in developing customized financial plans for their clients. They have direct access to a multitude of tools, including asset allocation models reported quarterly by our Investment Policy Committee. After analyzing their clients' needs, most Financial Advisors find that some form of professional asset management is appropriate for nearly every client. Investors can obtain the benefits of cost-effective professional management and diversification through the use of mutual funds. Clients with more investable assets can achieve the additional benefits of a tailored portfolio through the use of an individually managed account. Asset management is also available to clients who own annuities.

Because they know their clients' needs and risk tolerances so well, Financial Advisors are an excellent resource for recommending appropriate asset management strategies and specific asset management alternatives. Working with their clients, Financial Advisors can hire and fire selected portfolio managers to meet the changing needs of their clients or to attempt to improve performance.

Mutual funds offer professional guidance at a lower cost.

For investors who want to take advantage of the expertise of experienced portfolio managers and diversify their holdings, even if investing only a modest amount of money, mutual funds are an attractive alternative. In addition to being one of today's most popular investment choices, mutual funds are also one of the oldest forms of investment.

Raymond James:
Annual Mutual Fund Sales



As evidence of their popularity, assets invested in U.S. mutual funds have more than doubled since 1993, totaling $4.9 trillion on September 30, 1998.

Unlike some banks and investment firms that steer clients toward proprietary funds, Raymond James believes in providing our clients with a wide range of mutual funds and fund families – both proprietary and non-proprietary – from which to choose.

A first for the industry – forward-looking mutual fund research.

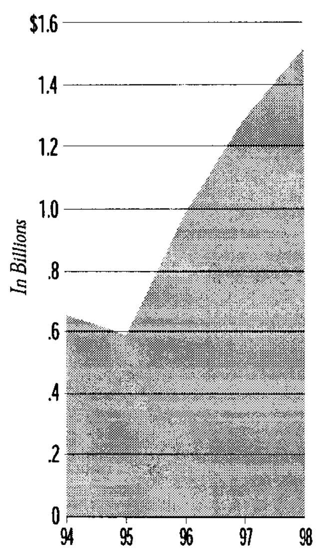
Because of the plethora of funds available, sorting through the alternatives is challenging. In 1998, Raymond James became the first securities firm in the nation to offer investors mutual fund research and to publish independent specific recommendations on individual load and no-load mutual funds and sectors. Not available to investors anywhere until this year, our in-depth, unbiased, fundamental mutual fund research provides the basis upon which investors can now make buy and sell decisions.

Our research, prepared by nine analysts and assistants, is unlike any other mutual fund research offered today. While all other current mutual fund analysis is backward-looking statistical research which concentrates on past performance, Raymond James' reports include a review of each fund's objectives and management style and offer our analysts' conclusions about future performance. Our research reports conclude with one of three specific ratings – "Highly Recommended, "Recommended" or "Not Recommended."

In addition to the recommendation, each report also features easy-to-understand performance data, top holdings and a hypothetical illustration of a $10,000 investment with dividends and capital gains, if applicable, reinvested.

According to Harry Sze, first vice president of mutual fund research, "Our analysts scrutinized more than 2,000 mutual funds before we selected the funds on which we would prepare our initial reports. We currently report on 120 mutual funds and we expect the number of funds we cover will grow significantly during the coming year."

Growth of Annuity Sales

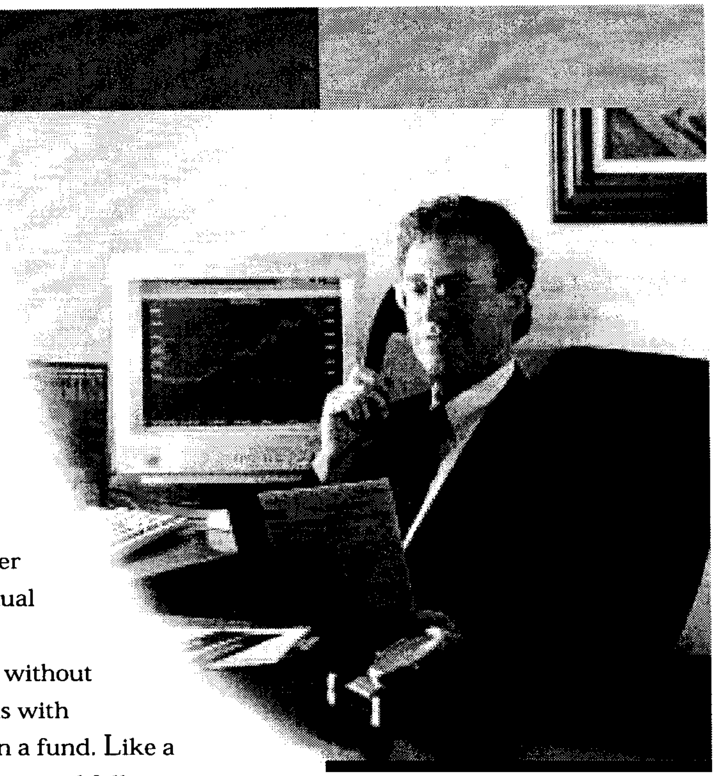


Annuities provide tax advantages and lifetime income.

Like mutual funds, sales of annuities have grown dramatically as a form of professional asset management.

For many investors, the combination of benefits provided by annuities – tax-deferred growth potential, guaranteed death benefit and guaranteed lifetime income – can make annuities an attractive and valuable retirement planning vehicle. Many annuities contain stock portfolios that are professionally managed. Our Eagle Asset Management subsidiary, for example, has been hired as subadvisor to manage several annuity portfolios.

As investors concentrate more intently on planning their retirements, annuities are becoming more prevalent. It is a trend Raymond James foresaw when we formed our own general insurance agency, Planning Corporation of America (PCA) in 1968. To provide a broad variety of insurance alternatives, PCA currently offers products from 58 insurance and annuity companies.



Private asset management offers flexibility.

For clients who want a greater degree of control, a more personalized level of service and more overall flexibility than they are able to achieve through mutual funds or annuities, Raymond James offers private, professionally managed individual accounts. In these accounts, assets are segregated from those of other clients and account minimums are generally higher than with mutual funds, typically at least $100,000.

The larger account size allows a portfolio manager to diversify without pooling the account assets with those of other investors. Individuals with private accounts own the securities directly versus owning shares in a fund. Like a mutual fund, however, the portfolio manager has complete discretion and follows a stated investment strategy, which the client and Financial Advisor have already determined is appropriate.

For individuals who have taxable accounts, having the flexibility to better manage their tax bill is often an important distinction of a private account. Instead of paying a pro rata share of capital gains incurred by a fund, investors with private accounts own their securities directly and pay taxes only on the capital gains they actually realize.

Because it meets so many of our clients' needs, professional money management is one of the fastest growing areas at Raymond James. Professional money managers and their teams of analysts provide traditional portfolio management, extensive experience, in-depth research and strategic monitoring during changing market conditions.

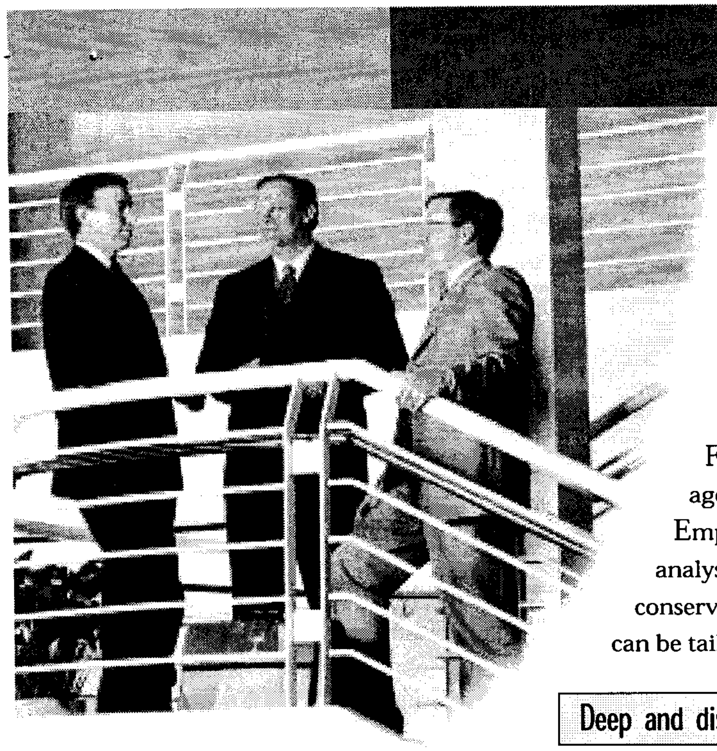
Providing clients with choices is important.

In keeping with Raymond James' policy of offering external alternatives side-by-side with internally generated investment products, we provide clients with a broad selection of professional money managers and disciplines. The Raymond James Asset Management Group, which includes Eagle Asset Management, Awad Asset Management, Heritage Asset Management, the Passport Investment Account and the Investment Advisory Services Division of Raymond James & Associates, includes both proprietary and non-proprietary alternatives.

Led by Raymond James Financial Executive Vice President Richard K. Riess, the Asset Management Group develops investment alternatives designed to meet a broad range of client needs. Currently, it manages more than $11 billion in assets for individuals, corporations, pension funds, trusts and municipalities, and administers over $3.5 billion of assets in non-discretionary Passport accounts.

"For many of my clients, variable annuities are an attractive and appropriate retirement planning vehicle. They offer professional management, plus the advantages of tax-deferred growth potential, guaranteed lifetime income and a guaranteed death benefit to protect heirs. They may not be right for everyone, but they're certainly worth considering."

Robert L. Brodhead
Senior Vice President, Investments
Raymond James & Associates
Clearwater, Florida



Eagle offers customized solutions to investor needs.

Eagle is the flagship of the Asset Management Group. Founded in 1976 as RJ Asset Management, Eagle currently manages $5.2 billion in assets for individuals and institutional investors. Employing 130 people, including 16 portfolio managers and research analysts, Eagle offers a variety of investment disciplines ranging from conservative fixed income strategies to aggressive equity objectives, that can be tailored to serve specific asset allocation strategies.

Deep and distinguished roots.

"The growth of the Asset Management Group clearly reflects the desire among today's investors for professional asset management and the demand for asset-based pricing. Steve Hill, Heritage president (left), Jeff Dowdle, vice president Asset Management Services, (right) and I expect that these trends will continue. During the next five years, I expect assets under management at Eagle to exceed $10 billion. I also believe that Heritage will become the number-one selling fund family at Raymond James and that Passport new account activity could approach $2-to-$2.5 billion per year."

Richard K. Riess
Executive Vice President
Asset Management Group

Four years ago, Herbert E. Ehlers, Eagle's long-time president and chief investment officer, left to form his own firm, Liberty Investment Management, now a division of Goldman Sachs Asset Management. Under an agreement with Raymond James, Liberty was allowed to solicit and successfully secure nearly all of Eagle's institutional equity accounts, totaling $4.3 billion at the time, while compensating Raymond James over a five-year period.

Following Herb's departure, Richard was promoted to president and CEO of Eagle. He and Tom James recruited Kenneth W. Corba from Stein Roe & Farnham in Chicago to serve as Eagle's chief investment officer and large-cap growth equity portfolio manager. They also hired Bert Boksen, former co-director of research and chief investment officer of Raymond James & Associates, to manage small-cap equity portfolios. During the past three years, Ken (1997) and Bert (1996) have both been identified as top-10 portfolio managers by *Pensions and Investments* magazine.

From a base of $1.6 billion in assets under management on January 1, 1995, Eagle has experienced dramatic recent growth. Assets managed for individuals have increased by $2.4 billion. Institutional account assets have increased by more than $750 million. This includes $200 million in assets introduced by Eagle's office in San Juan, Puerto Rico, which opened on May 1, 1995, and is managed by the former Puerto Rican Commissioner of Financial Institutions Hector Mayol. Eagle also acts as subadvisor to six Heritage mutual funds and to variable annuity portfolios sponsored by Equitable of Iowa, Jackson National Life and New York Life. At fiscal yearend, these annuity portfolios had assets amounting to $600 million.

In fiscal 1998, Eagle achieved several important milestones as new business introduced by Financial Advisors exceeded $1 billion for the first time in the company's history, variable annuity new business exceeded $100 million and revenues for the quarter ended September 30 reached a record $10.5 million.

Awad Asset Management provides small-cap expertise.

Another of Raymond James' asset management subsidiaries is Awad Asset Management, which currently manages more than $700 million.

James D. Awad, chairman and chief investment officer, is an accomplished small-cap manager with a principal belief that fundamental research leads to the identification of undervalued companies. A frequent guest on several nationally televised financial programs, Jim is noted for selecting companies with the earnings necessary to propel the company's stock price and whose current valuation may limit downside risk.

In addition to private retail and institutional clients, Awad is co-manager with Bert Boksen for the Heritage Small Cap Fund and the manager of the Calvert New Visions Small Cap Fund and the Timothy Plan Fund.

Heritage – our own family of mutual funds.

Among the thousands of funds offered to investors through Raymond James Financial's broker/dealer subsidiaries are those of our own Heritage Family of Funds. In 1985, Raymond James formed Heritage Asset Management to manage our own family of mutual funds, with the initial objectives of making Eagle's growth equity management expertise available to smaller investors and to create a high-quality, proprietary money market fund.

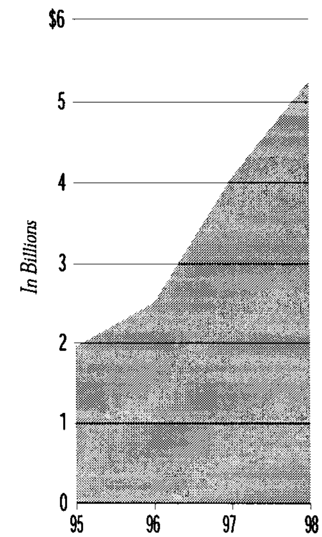
Today, Heritage manages nearly $4 billion (including $500 million for which affiliates serve as subadvisors) in 10 open-ended funds, two money market funds and one closed-end fund. The family includes a broad range of equity disciplines including small-cap, international, mid-cap, growth equity, capital appreciation, value equity, equity income and aggressive growth, the latter introduced just this past August. Heritage also offers two fixed income funds – a high-yield bond fund and an intermediate government fund.

In 1997, Heritage, in partnership with Santander Securities, a subsidiary of the large Spanish bank, introduced the First Puerto Rico Growth and Income Fund, which offers investors in Puerto Rico the opportunity to invest in a balanced portfolio of U.S. and Puerto Rican stocks and bonds.

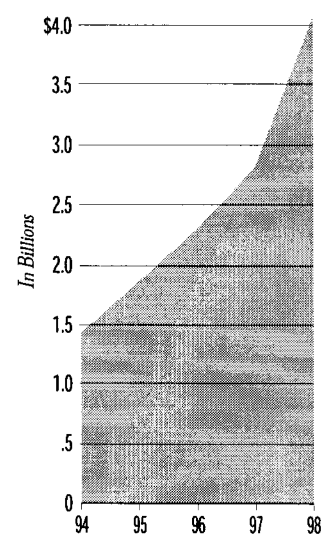
Heritage's motto is "the intelligent creation of wealth." According to its president, Stephen G. Hill, "This means that we strive to deliver superior long-term performance for our shareholders based on each fund's objectives while employing appropriate management strategies."

On the most conservative end of the spectrum, both portfolios of the Heritage Cash Trust have received the industry's mark of excellence – the Standard and Poor's AAAm rating – which is awarded only to money market funds of exceptional quality. Also, for the difficult quarter ended September 30, 1998, seven of the nine Heritage funds ranked by Lipper Analytical Services, Inc. outperformed the average for their peer group. In addition, Heritage Capital Appreciation Trust and Heritage Growth Equity Fund ranked in the top 4% of their peer groups during the 12 months ended September 30, 1998.

Eagle: Assets Under Management



Heritage: Assets Under Management



Augmenting its own employees to manage assets, Heritage has subadvisory relationships with several nationally recognized money management firms in addition to Eagle and Awad. One of the advantages of using subadvisors is that Heritage retains the flexibility to choose from a broad selection of portfolio managers and to change management should that become necessary or advisable.

"My client, Jane Schnebelt, (right) met Ken Corba, Eagle's large-cap growth equity portfolio manager, during his recent visit to Jackson Hole. Jane was so impressed by Ken's warmth and personal concern about her financial well-being that she gave her entire retirement portfolio to Eagle Asset Management. She said she felt her money was in good hands with Ken watching over it."

Judy Singleton
Investment Executive
Robert Thomas Securities
Financial Institutional Division
Jackson Hole, Wyoming

IAS enables clients to diversify even further.

To offer our clients the services of independent portfolio managers, the Investment Advisory Services (IAS) Division of Raymond James & Associates was formed in 1986. IAS performs in-depth research on investment managers across the country to produce an exclusive list of recommended investment advisors from which investors can choose. Today, IAS has placed in excess of $1.8 billion with 25 investment management firms representing more than 60 investment disciplines.

IAS offers the expertise of investment managers specializing in equity, balanced, fixed income and international disciplines. Financial Advisors and clients select the manager or combination of managers best suited to meet each client's financial objectives.

Before any investment management firm is approved and recommended, IAS conducts extensive due diligence to evaluate the people, philosophy, portfolios and performance of the firm. IAS then produces due diligence research reports, used by Financial Advisors and clients to evaluate the investment managers and to understand the recommendations. IAS monitors the investment managers regularly and reserves the right to terminate its relationship with them as needed to protect the best interests of IAS clients.

Passport Investment Account offers an innovative alternative.

In 1994, sensitive to the increasing popularity of asset-based pricing, Raymond James was one of the first firms in the nation to introduce an alternative pricing structure for non-managed accounts. Known as the Passport Investment Account, it offers the benefits of asset-based pricing to investors who wish to participate in making their own investment decisions. Clients are charged a fixed fee based on the account's market value, with only modest transaction charges for trades executed.

The Passport Investment Account has been very popular with Financial Advisors for a number of reasons. According to David I. Lapin of Robert Thomas Securities in Houston, "One of the primary reasons I left a national firm to join Robert Thomas was the Passport Investment Account. I know of no other vehicle that provides so much flexibility within a low-fee environment."

In the five years since its inception, Passport has attracted in excess of $3.5 billion of client assets.

Expanding asset management internationally.

As the world evolves into a global village, diversifying internationally is becoming more important, both in providing our clients with opportunities to have access to international managers and by offering a variety of mutual funds investing in international securities.

Raymond James' Investment Policy Committee, in making its asset allocation recommendations, believes that a portion of nearly every equity portfolio should have some international exposure.

To meet the asset management needs of our domestic clients, Raymond James also benefits from a global partnership with Martin Currie, Inc., headquartered in Edinburgh, Scotland. Martin Currie is subadvisor to the Heritage International Equity Fund. In addition, we offer a variety of mutual funds with an international focus.

From a business perspective, we also believe there is a similar need for professional asset management for investors outside the United States. Capitalizing on that need, we currently have asset management joint ventures in Bombay, India, and Paris, France.

ASK-Raymond James Securities India, Ltd. in Bombay, a joint venture between ASK Investment & Financial Consultants and Heritage International Ltd. (Mauritius), a subsidiary of Raymond James International Holdings, offers a full range of financial services including management of the TAJ Performance Fund, a Dublin-listed, offshore fund for European investors.

Paris-based Raymond James Asset Management International (RJAMI), led by Emmanuel Laussinotte and André Galas, was created four years ago to manage assets for individuals, corporations and institutions in Europe. Today, RJAMI manages more than $125 million, including $50 million in four value-oriented equity funds invested in France, Europe, the United States and Portugal. RJAMI also owns 50% of IT Asset Management, specializing in information technology sectors worldwide.

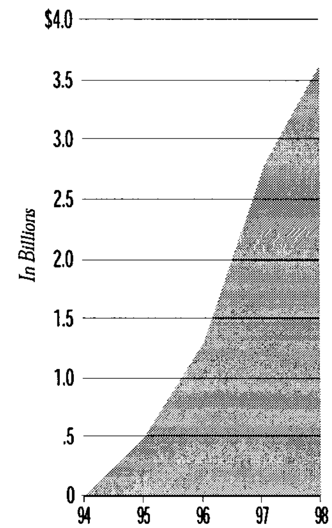
As these and other international ventures evolve, every effort will be made to import products and services to U.S. investors.

Thinking ahead keeps us ahead.

Clearly, the forms of asset management at Raymond James are quite diverse, but one thing is constant: The driving force behind building assets under management at Raymond James has been, quite simply, delivering what our clients want and need. Time after time, we have led the industry in finding just the right mix of people, philosophy, process and performance to meet our clients' needs.

That objective continues to be met today as we remain resolute in creating intelligent and innovative ways to satisfy the asset management needs of our clients, Financial Advisors and shareholders. Nothing less will do.

Passport Investment Account: Assets Under Management



Making good things happen in our communities.

One of the precepts of the Raymond James Pledge *(inside back cover)* is that our Associates must give something back to the communities in which we live and work. With over 6,300 Associates in more than 1,000 locations throughout the United States and internationally, it's no wonder that our energetic involvements in civic, community and charitable activities are felt in so many areas.

From fostering literacy to painting houses for low-income families, from finding homes for retired greyhounds to raising record sums of money for cancer, Alzheimer's, diabetes and heart disease research and patient care, from helping children in the classroom to the Shrine Circus, the Associates of Raymond James derive enormous satisfaction from volunteering.

Giving of oneself is a long-standing tradition at Raymond James. In Tampa Bay alone, the firm is perennially one of the largest contributors to the United Way. We also support many Tampa Bay educational institutions, contribute to several prominent museums and promote the Florida Orchestra by having an annual outdoor "Symphony Under the Stars" for our Associates.

Our reach extends far beyond Tampa Bay to other communities and charities in which our Associates participate, such as the U.S. Olympic Committee in Washington, D.C., Big Brothers and Big Sisters of Marion County, California, and the Peace Center Outreach Program in Greenville, South Carolina.

Henry Kremer, Raymond James Financial Advisor in the Holiday office, devotes his spare time to a Rotary International program called Rotocleft, helping children born with cleft palates or other facial deformities around the world. Last year, Henry, together with a team of doctors and volunteers, spent a week in Huanco, Peru, providing reconstructive surgery to 48 children.

Supporting the arts is also one of the firm's greatest pursuits. With magnificent paintings and sculpture from the personal collection of Tom James throughout The Raymond James Financial Center, we draw art lovers from across the nation. Since the firm first began conducting formal tours of the collection in 1996, thousands of clients and guests have taken advantage of the opportunity to view it. Interest has been so great that the firm's art curator, Cheryl Ganster, now conducts classes for Associates who want to serve as tour guides on their own time. Some of the tours include visits to the trading floor and other areas unique to our firm and industry, enabling our guests to gain insight into the firm and the services that we provide.

We also sponsor major art events including the nationally acclaimed Gasparilla Festival of Arts in Tampa, one of the nation's finest outdoor shows, as well as several smaller shows showcasing the work of regional artists.

By volunteering personal time and sponsoring worthy endeavors, Raymond James and its Associates make good things happen in the communities in which we live and work.

Raymond James Financial Annual Report Terms

Because some of the terminology used in preparing the financial statement of a brokerage firm is unique to our industry, we want to ensure that our shareholders understand the significant items.

In the Consolidated Statement of Financial Condition, the following, we believe, require explanation:

Assets segregated pursuant to Federal Regulations Each week, Raymond James & Associates must calculate, as prescribed by the Securities and Exchange Commission (SEC) Rule 15c3-3, the amount of cash that is required to be maintained in a special reserve account for the exclusive benefit of clients. Essentially, the calculation nets client receivables, primarily Ready Access Account margin balances, with client payables, primarily Client Interest Account balances, and requires us to deposit the difference (excess payables) in a special account. The reserve account is comprised of cash and certain approved securities. The SEC permits us to enter into written agreements (repurchase agreements) with certain financial institutions which authorize us to purchase U.S. Treasury securities with the promise that the financial institution will repurchase the securities from us on a predetermined date. In order to assure the highest level of safety, the underlying securities are always physically held by a third-party custodian bank.

Trading and investment account securities Raymond James & Associates, in its capacities as an over-the-counter market-maker and as specialist on various stock exchanges, maintains an inventory of stocks and bonds. In functioning as a market-maker or specialist, we must always be ready to buy or sell a prescribed minimum amount of the securities in which we deal. The amounts shown on the balance sheet are predominately the marketable securities held in inventory for this purpose as of the stated date. These securities are marked to current prices on a daily basis and both realized and unrealized gains and losses are reflected in income immediately.

Available for sale securities Accounting standards require that Raymond James Financial and its non-brokerage subsidiaries classify securities they own on a different basis than a market-maker or specialist does. On our balance sheet, the majority of these securities are held by Raymond James Bank, FSB. While marked to current prices, the handling of unrealized gains and losses and net of taxes, are reported as a separate component of shareholders' equity.

Receivables: Clients These are predominantly balances due Raymond James & Associates for Ready Access Account margin loans. These accounts are collateralized by securities owned by our clients. This balance also includes funds due from brokerage clients in the normal course of settling transactions. Also included are Raymond James Bank's various customer loan balances.

Receivables: Stock borrowed The Raymond James & Associates Stock Borrow/Loan Department is one of the firm's lines of business. We generally function as an agent between brokerage firms that need to borrow securities to fulfill their obligations and other brokerage firms or institutions (pension funds, etc.) with securities to lend. As an agent, we borrow securities from a lender who receives cash equal to or greater than the current market value as collateral (recorded from Raymond James & Associates' perspective in the transactions as a "stock borrowed" receivable balance because the cash is due to us when the stock is eventually returned to the lender) and pays us interest for use of the money. We immediately loan the securities to the borrowing firm which must deposit cash (recorded in the "stock loaned" payable balance) equal to or greater than the market value of the securities being borrowed. In return, they have use of the securities and the borrower is paid interest on the deposit. As agent, we earn an interest spread between the two interest rates for introducing the parties to the transaction. We include all interest received from the lender as interest income, while the interest paid to the borrower is recorded in interest expense. The securities underlying these transactions are marked to current prices daily and deposit balances are adjusted as appropriate.

Receivables: Brokers, dealers and clearing organizations During the course of settling transactions, it is normal to have receivables outstanding from various entities (as indicated by the title of this line item) for several days. These balances are monitored closely and collected as quickly as possible.

Payables: Clients This balance includes funds held in clients' accounts pursuant to the Raymond James & Associates Client Interest Program. These funds, on which the firm pays a competitive rate of interest, are awaiting investment. Other balances held in client accounts are the result of the normal settlement process and are short term in nature. This balance also includes funds held on deposit for checking and savings accounts at Raymond James Bank.

Payables: Stock loaned Please see "Receivables: Stock Borrowed" above.

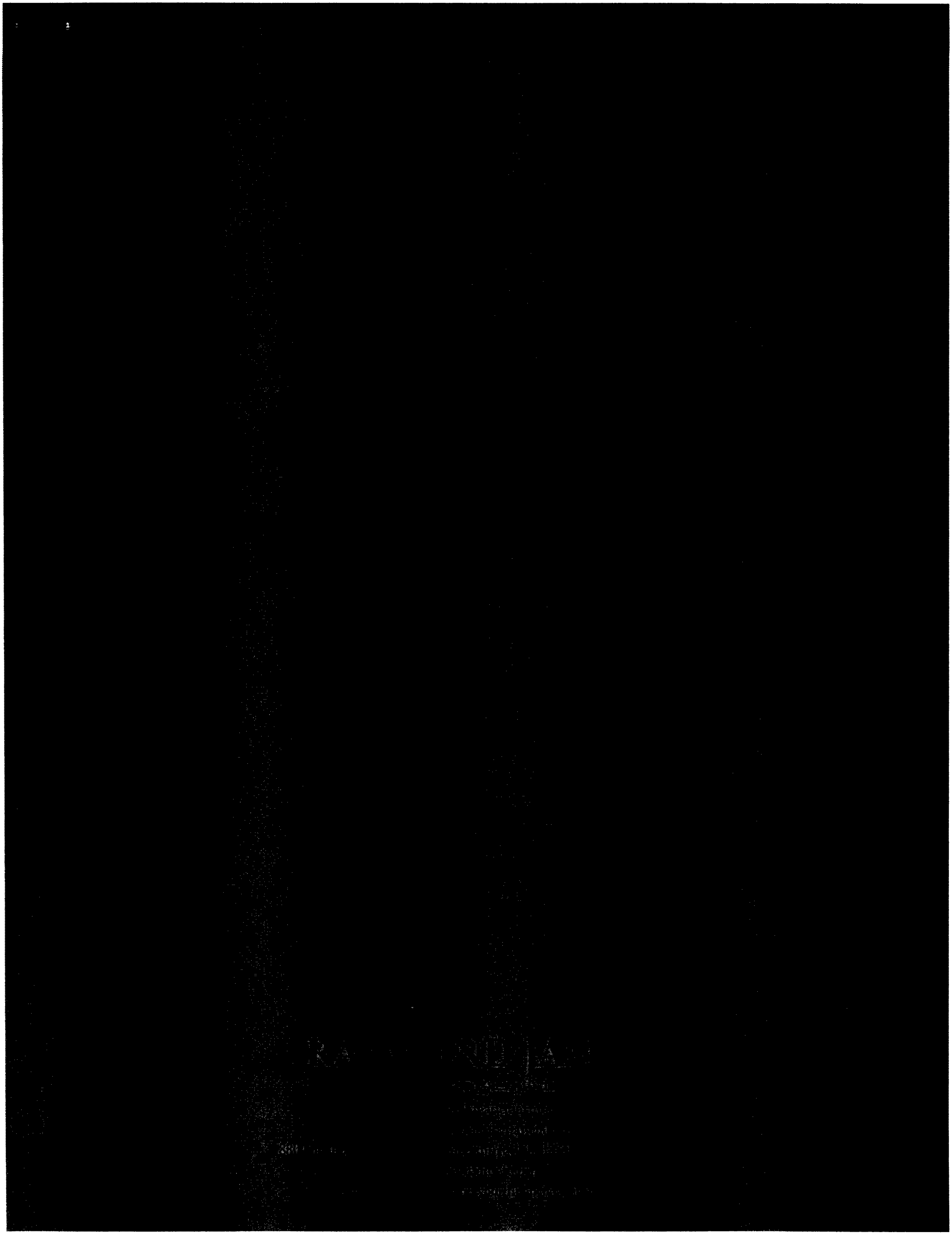
Payables: Brokers, dealers and clearing organizations During the normal course of settling transactions, it is common to have payables outstanding for several days after the settlement date. These balances are monitored closely and are paid as soon as the underlying securities are delivered to us.

Payables: Trade and other Accounts payable are accrued bills and invoices (utility bills, supplies, vendors' invoices) as the result of the normal course of doing business. "Trade" is used as a generic accounting term and not in the context of conducting a brokerage transaction.

Trading account securities sold but not yet purchased As market-maker or specialist, the firm may also sell securities that we do not currently own. This is normally known as "selling short." The proceeds from the sale of these securities are recorded in the "Liability" section. The underlying securities are marked to current prices on a daily basis and any unrealized gains and losses are reflected in income immediately.

Raymond James Pledge

Service 1st



Appendix 3:

Raymond James Annual Report – Financial Section

Selected Financial Data

(in thousands, except per share data)

	Year Ended				
	Sept. 25, 1998	Sept. 26, 1997	Sept. 27, 1996	Sept. 29, 1995	Sept. 30, 1994
Operating Results:					
Revenues	$ 1,082,907	$ 927,607 **	$ 721,752	$ 554,070	$ 507,136
Net income	$ 92,704	$ 98,915 **	$ 65,978	$ 46,141	$ 42,069
Net income per share-basic:*	$ 1.92	$ 2.09 **	$ 1.41	$ .99	$ .88
Net income per share-diluted:*	$ 1.86	$ 2.04**	$ 1.39	$ .98	$ .87
Weighted average common shares outstanding- basic:*	48,160	47,383	46,781	46,607	47,806
Weighted average common shares outstanding- diluted:*	49,951	48,387	47,307	47,083	48,355
Cash dividends declared per share*	$ .24	$ .21	$ .17	$ .16	$ .14
Financial Condition:					
Total assets	$ 3,852,737	$ 3,278,645	$ 2,566,381	$ 2,012,715	$ 1,698,262
Long-term debt	$ 44,767	$ 12,715	$ 12,909	$ 13,084	$ 13,243
Shareholders' equity	$ 509,898	$ 423,276	$ 326,632	$ 266,193	$ 227,452
Shares outstanding*	48,268	47,695	47,012	46,382	46,112
Equity per share at end of period*	$ 10.56	$ 8.87	$ 6.95	$ 5.74	$ 4.93

* Gives effect to the common stock splits paid on April 2, 1998 and April 3, 1997.
** Amounts include the $30.6 million gain on the sale of Liberty Investment Management, Inc. Excluding this gain, revenues were $896,961,000 and net income was $80,126,000, and basic and diluted net income per share were $1.69 and $1.66, respectively. See Note 16 of the Notes to Consolidated Financial Statements for details.

Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations – Three Years Ended September 25, 1998

Fiscal 1998 was the Company's fourteenth consecutive year of record revenues, surpassing the $1 billion mark for the first time. Total revenues of $1,083,000,000 represented an increase of 17% over the prior year, and an even more impressive 21% increase when the 1997 results are adjusted to exclude the one-time gain from the sale of the Company's interest in Liberty Investment Management, Inc. ("Liberty") as described in Note 16 to the Consolidated Financial Statements. Similarly, reported earnings of $92,700,000 indicate a decline of 6% from the prior year. However, excluding the prior year gain from the Liberty sale, earnings established a record, rising 16%.

The first nine months of fiscal 1998 continued the extremely favorable market trends of the prior two fiscal years. A slowdown occurred in the fourth quarter, however, as equity markets suffered a steep decline. The Company's continued focus on non-transaction dependent fee revenues, such as investment advisory fees, interest and asset-based commission alternatives, helped the Company achieve relatively consistent results in a volatile market environment. For fiscal 1998, such fee-based revenues represented approximately 40% of total revenues.

	Year Ended				
	Sept. 25, 1998 (000s)	% Increase (Decrease)	Sept. 26, 1997 (000s)	% Increase	Sept. 27, 1996 (000s)
Revenues:					
Securities commissions and fees	$ 631,661	23%	$514,964	22%	$422,487
Investment banking	107,772	(1%)	109,088	50%	72,596
Investment advisory fees	79,485	44%	55,194	9%	50,715
Interest	202,255	30%	155,746	23%	126,453
Correspondent clearing	4,429	(2%)	4,502	13%	3,985
Net trading profits	6,300	(51%)	12,797	5%	12,243
Financial service fees	28,928	18%	24,610	35%	18,191
Other	22,077	10%	20,060	33%	15,082
	1,082,907	21%	896,961	24%	721,752
Gain on sale of Liberty	—		30,646		—
Total Revenues	$1,082,907	17%	$927,607	29%	$721,752

The record transaction volumes in fiscal years 1998, 1997 and 1996 resulted in increased securities commissions from the sales of all product lines during the period, with the largest absolute increase occuring in sales of mutual funds. While the retail sales force has experienced double-digit annual growth in headcount since fiscal 1996, as illustrated below, the increased productivity of existing Financial Advisors has been an even greater factor in the growth of commission revenues.

	Year Ended				
	Sept. 25, 1998	% Increase	Sept. 26, 1997	% Increase (Decrease)	Sept. 27, 1996
Number of retail Financial Advisors at yearend	3,117	10%	2,825	13%	2,503
Retail commission revenues (000s)	$ 523,890	24%	$ 422,316	26%	$ 334,871
Retail new issue sales credits (000s)	$ 24,976	2%	$ 24,472	49%	$ 16,462
Number of institutional salesmen at yearend	134	9%	123	(5%)	129
Institutional commission revenues (000s)	$ 107,771	16%	$ 92,648	6%	$ 87,616
Institutional new issue sales credits (000s)	$ 26,470	14%	$ 23,167	57%	$ 14,727
Number of trades processed	3,328,000	19%	2,803,000	11%	2,526,000

Investment banking revenues, including new issue sales credits, decreased nominally to $108 million in 1998 from the record $109 million in the prior year. Fiscal years 1997 and 1996 were record years for equity underwriting activity, both in number of new issues and average offering size. This pace continued only through the first half of fiscal 1998, at which time small and mid-cap stocks began to weaken, particularly in certain industry sectors, which slowed and eventually curtailed the new issue deal flow. The number of managed and co-managed underwritings, the vast majority of which were equity-related offerings, and the dollar volume of these transactions were as follows: 1998 – 57 new issues for $6.0 billion; 1997 – 65 new issues for $7.8 billion; and 1996 – 38 new issues for $2.7 billion. Merger and acquisition fees, although a less significant component, have been a consistent revenue source during the past few years, reaching a record $20 million in 1998.

Investment advisory fees have risen commensurate with the generally strong growth in assets under management. Exclusive of the Liberty effects, financial assets under management suffered their first quarterly decline in nearly four years during the September 1998 quarter, but still showed a 22% increase for the fiscal year. Fee revenues increased at a much greater rate as the asset decline occurred near the end of the year. Asset management growth has benefited from both overall asset appreciation and record net sales during the past two years. For fiscal 1997 and 1996, investment advisory fees included $2.6 million and $9.7 million, respectively, in fees from Liberty, which was sold in January 1997. Since 1995, real estate assets under management had been increasing significantly as the Company's Raymond James Realty Advisors subsidiary had become a recognized manager of institutional real estate portfolios. During 1998 this portfolio management operation was sold, and its employees were transferred to the new owner. This transaction generated $3.7 million of performance fees which are included in investment advisory fees.

	Sept. 25, 1998 (000s)	% Increase (Decrease)	Sept. 26, 1997 (000s)	% Increase (Decrease)	Sept. 27, 1996 (000s)
Eagle Asset Management*	$ 4,804,967	29%	$ 3,714,407	55%	$ 2,388,922
Heritage Family of Mutual Funds	3,947,394	25%	3,160,910	33%	2,382,670
Investment Advisory Services	1,798,260	25%	1,433,018	46%	980,415
Awad Asset Management*	656,336	(19%)	814,315	66%	490,477
Carillon Asset Management	—	(100%)	53,448	5%	50,795
Subtotal	11,206,957	22%	9,176,098	46%	6,293,279
Liberty Investment Management, Inc.**	—	—	—	(100%)	5,468,913
Total Financial Assets Under Management	$ 11,206,957	22%	$ 9,176,098	(22%)	$ 11,762,192

* Excludes balances included in the Heritage Family of Mutual Funds.
** See Note 16 of the Notes to Consolidated Financial Statements.

Net interest income continues to be a growing source of recurring earnings. The components of interest earnings are as follows:

	Year Ended Sept. 25, 1998 (000s)			Sept. 26, 1997 (000s)			Sept. 27, 1996 (000s)	
Margin balances:								
Average balance	$701,742			$480,203			$386,422	
Average rate	8.2%			8.1%			8.2%	
		$ 57,697			$ 39,087			$31,529
Assets segregated pursuant to Federal Regulations:								
Average balance	776,768			601,902			452,710	
Average rate	5.6%			5.3%			5.4%	
		43,163			32,148			24,538
Stock borrowed:								
Average balance	1,154,703			1,004,735			947,412	
Average rate	4.9%			4.8%			4.7%	
		57,049			48,606			44,361
Raymond James Bank, FSB		22,937			17,739			11,980
Other interest revenue		21,409			18,166			14,045
Total interest revenue		202,255			155,746			126,453
Client interest program:								
Average balance	1,201,398			880,026			678,910	
Average rate	4.8%			4.7%			4.8%	
		57,627			41,693			32,374
Stock loaned:								
Average balance	1,119,287			980,000			941,937	
Average rate	4.7%			4.5%			4.4%	
		53,200			44,238			41,165
Raymond James Bank, FSB		17,249			12,997			7,782
Other interest expense		2,933			2,413			2,150
Total interest expense		131,009			101,341			83,471
Net interest income		$ 71,246	+31%		$ 54,405	+27%		$42,982

Net trading profits declined 51% from the prior year, primarily as a result of the changes in the over-the-counter equity trading regulations and practices. These changes have virtually eliminated the gross equity trading profits and the Company expects that flat or negative over-the-counter equity trading results will be the norm, not the exception. In the past, the Company's trading profits had remained relatively consistent, derived primarily from client order flow in both over-the-counter equity and fixed income securities.

The growth in the Company's retail client base during the past two fiscal years has led to increased financial service fees. There has been an 80% increase in the number of IRA accounts, a 53% increase in money market processing fees, a 40% increase in postage and service charges for transactions processed and a 135% increase in transaction fees arising from the Company's retail asset-based fee account programs, an increasingly popular alternative to the traditional commission-based pricing structure.

Fiscal 1998's other income includes $1.7 million related to the sale of the real estate portfolio and property management subsidiaries and $2.4 million from the sale of the Company's specialist operations on the Chicago Exchange. Other income in fiscal 1997 includes a gain of $2.5 million from the Company's sale of its former headquarters building. For the first half of 1998 and in previous years, other income includes property management fees from the operations which were sold by the Company in March 1998. These fees had been increasing substantially through the years as the number of apartment units under management increased.

	Year Ended				
	Sept. 25, 1998 (000s)	% Increase (Decrease)	Sept. 26, 1997 (000s)	% Increase	Sept. 27, 1996 (000s)
Expenses:					
Employee compensation:					
Sales commissions	$432,602	25%	$346,770	24%	$279,670
Administrative and benefit costs	120,935	25%	96,549	21%	80,092
Incentive compensation	96,723	3%	94,091	47%	64,142
Total employee compensation	650,260	21%	537,410	27%	423,904
Communications and information processing	43,485	16%	37,491	23%	30,585
Occupancy and equipment	33,029	22%	27,175	14%	23,927
Clearance and floor brokerage	11,607	(1%)	11,708	16%	10,098
Interest	131,009	29%	101,341	21%	83,471
Business development	31,514	52%	20,755	29%	16,053
Other	31,767	2%	31,212	24%	25,189
	$932,671	22%	$767,092	25%	$613,227

Sales commission expense increased at a rate approximately proportionate to the related revenues, with the slight variance being attributable to the mix of independent contractor and employee Financial Advisors and the bracket creep associated with higher average production.

Administrative and benefit compensation costs have been increasing at a rate consistent with the growth in total revenues. The total number of employees has increased over 40% in the past three years, with the most significant increase occurring in the information systems area.

Incentive compensation expenses are based on departmental, subsidiary and firm-wide profitability. Record underwriting activity in 1997 resulted in a dramatic increase in investment banking departmental profits, having a significant impact on incentive compensation. These revenues and the related incentive compensation were basically flat from 1997 to 1998.

The continuing increases in communications and information processing expense in fiscal 1998 and 1997 reflect the costs of further enhancement and expansion of the Company's systems of internal communication and information dissemination, as well as higher general business volume which gave rise to increased costs for telephone, printing and supplies.

The completion and occupancy of the third headquarters building in the spring of 1998 gave rise to much of the increased occupancy and equipment expenses for that year. The increase in occupancy and equipment expense from fiscal 1996 to 1997 is predominantly the increased depreciation on additional information processing equipment, as well as expenses associated with upgraded retail office space and financial advisor workstations over the past two years.

Clearing and floor brokerage expense has not increased in proportion to related revenues due to the increased productivity of floor brokers and other cost saving measures implemented over the period.

Business development expenses rose dramatically in 1998 due to increased advertising, both to recruit Financial Advisors and increase brand name recognition; increased travel and related expenses, particularly by the larger staff of investment bankers and research analysts; the inception of the stadium naming rights contract; and costs associated with larger conferences throughout the Company's operations. The increase in 1997 was proportionate to the increase in total revenues and reflects the growth of most of the same items.

While the Company was able to hold other expenses relatively constant in 1998, these expenses increased from 1996 to 1997 at a pace equal to the growth in revenues. These expenses include fees paid to outside managers in the Company's investment advisory services program, bank service charges, legal expenses and provisions, and various state taxes.

Year 2000

The widespread use of computer programs that rely on two-digit date programs to perform computations and decision-making functions may cause computer systems to malfunction in the year 2000 and lead to significant business delays and disruptions in the U.S. and internationally.

The Company has revised all critical information technology (IT) internal computer code that it has identified as requiring modification for Year 2000 compliance, and will begin full integration testing of the revised code during the first quarter of fiscal 1999. All of the Company's securities transactions are processed on software provided by Securities Industry Software (SIS), a subsidiary of Automatic Data Processing, Inc., and the Company is closely monitoring the progress of SIS in revising its software. Based on information received to date, the Company believes that SIS will complete revision and testing of its software on a timely basis. The Company is also monitoring information received from third-party vendors regarding their progress in modification of other software used by the Company, as well as the progress of other industry suppliers, in addressing this issue.

With respect to non-IT systems, primarily those located at its headquarters campus and those provided by its telecommunications and satellite service providers, the Company has completed the inventory of all systems and has begun the process of confirming the compliance status of its vendors. Most of these vendors are major national or international companies which have been addressing the Year 2000 issue for some time. The Company expects to complete this process of third-party review by August of 1999.

With the exception of those discussed below, all of the Company's subsidiaries are substantially dependent upon the Company's Year 2000 compliance program. Raymond James Bank, Raymond James Trust Company and Heritage Asset Management, Inc. have received revised computer software from the third-party vendors on whom they are dependent and have begun the testing process, which they anticipate will be completed by June of 1999. Eagle Asset Management, Inc. has completed assessment and inventory of its critical IT requirements and is presently installing a new portfolio management system which has been designed to be Year 2000 compliant. Installation is expected to be completed by April of 1999 and system testing completed by July of 1999.

The Company will begin the process of developing contingency plans during the second fiscal quarter.

The securities industry is scheduled to begin industry-wide testing for Year 2000 compliance during the spring of 1999 and the Company anticipates that it will be ready to participate in that testing program as it has completed virtually all of its internal programming. To date, the Company's costs in making system modifications have not been material and the Company does not believe that remaining costs will have a material impact on the Company's operations in fiscal 1999.

The impact of this problem on the securities industry will be material, however, since virtually every aspect of the sale of securities and the processing of transactions will be affected. Due to the enormous task facing the securities industry, and the interdependent nature of securities transactions, the Company may be adversely affected by this problem in the Year 2000 depending on whether it and the entities with whom it does business address this issue successfully.

Liquidity and Capital Resources

Net cash from operating activities during the current year was $448 million. Cash was generated by increased client balances in the client interest program net of increased customer margin balances and the fluctuations in various asset and liability accounts.

Investing activities required $118 million during the year. Additions to fixed assets consumed $46 million, of which $27.8 million was for the construction of new buildings at the headquarters complex, the remainder being for the purchase of computers, office furniture and equipment. Net purchases, sales and maturations of investments consumed $72 million. These investments were primarily mortgage-backed securities purchased by Raymond James Bank, FSB ("RJ Bank").

Financing activities provided $25 million, the result of increased mortgage financing and the exercise of stock options and employee stock purchases, net of cash dividends paid and repurchases of the Company's common stock.

The Company has loans payable consisting of debt in the amount of $40 million in the form of a mortgage on its headquarters office complex and a $5 million Federal Home Loan Bank advance at RJ Bank. The Company refinanced an existing mortgage and obtained additional financing after the completion of the third headquarters building for a total mortgage amount of $40 million.

The parent company has a commitment from a national bank for an unsecured $50 million line of credit for general corporate purposes. In addition, Raymond James & Associates, Inc. has uncommitted bank lines of credit aggregating $310 million.

The Company's broker-dealer subsidiaries are subject to requirements of the SEC relating to liquidity and capital standards (see Notes to Consolidated Financial Statements).

Effects of Recently Issued Accounting Standards

During June 1997 the Financial Accounting Standards Board ("FASB") issued Statement No. 130, "Reporting Comprehensive Income," ("FAS 130") which requires entities to report changes in equity that result from transactions and economic events other than those with shareholders. The standard divides comprehensive income into "net income" and "other comprehensive income." Other comprehensive income includes available-for-sale items. The Company will be required to present comprehensive income beginning in fiscal 1999. Disclosure requirements will include showing aggregate net income plus other comprehensive income adjustments in either a separate statement or below net income in the statement of operations. The impact of adopting FAS 130 is not anticipated to have a material effect on the Company's financial position or results of operations.

Also during fiscal 1998, the FASB issued statement No. 133 "Accounting for Derivative Instruments and Hedging Activities." This standard requires that derivatives be recognized in the balance sheet at fair value. Designation as hedges of specific assets or liabilities is permitted only if certain conditions are met. Effective in fiscal 2000, the Company will be required to record and mark to market any derivative financial instruments and related underlying assets, liabilities and firm commitments. Based on current operations, there should be minimal impact on the Company's financial statements.

Market Risk

During fiscal 1997 the Securities and Exchange Commission issued market risk disclosure requirements to enhance disclosures of accounting policies for derivatives and other financial instruments and to provide quantitative and qualitative disclosures about market risk inherent in derivatives and other financial instruments. The Company manages risk exposure involving various levels of management. Position limits in trading and inventory accounts are established and monitored on an ongoing basis. Current and proposed underwriting, corporate development, merchant banking and other commitments are subject to due diligence reviews by senior management, as well as professionals in the appropriate business and support units involved. Credit risk related to various financing activities is reduced by the industry practice of obtaining and maintaining collateral. The Company monitors its exposure to counterparty risk through the use of credit exposure information, the monitoring of collateral values and the establishment of credit limits.

The Company maintains inventories as detailed in Note 2 to the Consolidated Financial Statements. The fair value of these securities at September 25, 1998, was $106 million in long positions and $31 million in short positions. The Company performed an entity-wide analysis of the Company's financial instruments and assessed the related risk and materiality in accordance with the rules. Based on this analysis, in the opinion of management, the market risk associated with the Company's financial instruments at September 25, 1998 will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

Effects of Inflation

The Company's assets are primarily liquid in nature and are not significantly affected by inflation. Management believes that the replacement cost of property and equipment 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.

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 of 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, include, but are not limited to: (i) transaction volume in the securities markets, (ii) the volatility of the securities markets, (iii) fluctuations in interest rates, (iv) changes in regulatory requirements which could affect the cost of doing business, (v) fluctuations in currency rates, (vi) general economic conditions, both domestic and international, (vii) changes in the rate of inflation and related impact on securities markets, (viii) competition from existing financial institutions and other new participants in the securities markets, (ix) legal developments affecting the litigation experience of the securities industry, and (x) changes in federal and state tax laws which could affect the popularity of products sold by the Company. The Company does not undertake any obligation to publicly update or revise any forward-looking statements.

Consolidated Statement of Financial Condition

(in thousands, except per share data)

	Sept. 25, 1998	Sept. 26, 1997
Assets		
Cash and cash equivalents	$ 296,817	$ 196,351
Assets segregated pursuant to Federal Regulations:		
Cash and cash equivalents	1	375
Securities purchased under agreements to resell	946,723	692,054
Securities owned:		
Trading and investment account securities	105,892	98,004
Available for sale securities	385,676	313,286
Receivables:		
Clients, net	893,839	686,339
Stock borrowed	852,744	1,070,944
Brokers, dealers and clearing organizations	112,838	39,644
Other	62,722	38,118
Investment in leveraged leases	23,297	22,161
Property and equipment, net	81,372	51,674
Deferred income taxes, net	32,841	24,356
Deposits with clearing organizations	21,206	22,200
Prepaid expenses and other assets	36,769	23,139
	$3,852,737	$3,278,645
Liabilities and Shareholders' Equity		
Loans payable	$ 44,767	$ 14,215
Payables:		
Clients	2,126,699	1,487,158
Stock loaned	828,102	1,035,035
Brokers, dealers and clearing organizations	43,227	22,252
Trade and other	99,690	81,217
Trading account securities sold but not yet purchased	30,841	55,298
Accrued compensation and commissions	158,539	141,781
Income taxes payable	10,974	18,413
	3,342,839	2,855,369
Commitments and contingencies (Note 9)	—	—
Shareholders' equity:		
Preferred stock; $.10 par value; authorized 10,000,000 shares; issued and outstanding -0- shares	—	—
Common stock; $.01 par value; authorized 100,000,000 shares; issued 48,997,995 shares	490	326
Additional paid-in capital	57,777	52,599
Unrealized gain on securities available for sale, net of deferred taxes	114	341
Retained earnings	459,099	377,981
	517,480	431,247
Less: 730,118 and 1,303,176 common shares in treasury, at cost	(7,582)	(7,971)
	509,898	423,276
	$3,852,737	$3,278,645

The accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are integral parts of these financial statements.

Consolidated Statement of Income

(in thousands, except per share data)

	Year Ended Sept. 25, 1998	Year Ended Sept. 26, 1997	Year Ended Sept. 27, 1996
Revenues:			
Securities commissions and fees	$ 631,661	$ 514,964	$ 422,487
Investment banking	107,772	109,088	72,596
Investment advisory fees	79,485	55,194	50,715
Interest	202,255	155,746	126,453
Correspondent clearing	4,429	4,502	3,985
Net trading profits	6,300	12,797	12,243
Financial service fees	28,928	24,610	18,191
Other	22,077	20,060	15,082
Gain on sale of Liberty Investment Management, Inc. (Note 16)	—	30,646	—
	1,082,907	927,607	721,752
Expenses:			
Employee compensation	650,260	537,410	423,904
Communications and information processing	43,485	37,491	30,585
Occupancy and equipment	33,029	27,175	23,927
Clearance and floor brokerage	11,607	11,708	10,098
Interest	131,009	101,341	83,471
Business development	31,514	20,755	16,053
Other	31,767	31,212	25,189
	932,671	767,092	613,227
Income before provision for income taxes	150,236	160,515	108,525
Provision for income taxes	57,532	61,600	42,547
Net income	$ 92,704	$ 98,915	$ 65,978
Net income per share – basic	$ 1.92	$ 2.09	$ 1.41
Net income per share – diluted	$ 1.86	$ 2.04	$ 1.39
Weighted-average common shares outstanding – basic	48,160	47,383	46,781
Weighted-average common and common equivalent shares outstanding – diluted	49,951	48,387	47,307

The accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are integral parts of these financial statements.

Consolidated Statement of Changes in Shareholders' Equity

(in thousands, except per share data)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Unrealized Gain (Loss) on Securities Available for Sale	Treasury Stock		Total Share-holders' Equity
	Shares	Amount	Shares	Amount				Common Shares	Amount	
Balances at Sept. 29, 1995	—	—	21,777	$217	$50,685	$231,029	$ 146	(1,163)	$(15,884)	$266,193
Net income						65,978				65,978
Cash dividends – common stock ($.17 per share)						(7,911)				(7,911)
Purchase of treasury shares								(18)	(367)	(367)
Employee stock purchases					585			106	1,455	2,040
Exercise of stock options					(1,250)			192	2,635	1,385
Tax benefit related to non-qualified option exercises					251					251
Net unrealized loss on securities available for sale							(937)			(937)
Balances at Sept. 27, 1996	—	—	21,777	217	50,271	289,096	(791)	(883)	(12,161)	326,632
Net income						98,915				98,915
Cash dividends – common stock ($.21 per share)						(9,921)				(9,921)
Employee stock purchases					2,031			145	1,649	3,680
Exercise of stock options					(11)			211	2,541	2,530
Tax benefit related to non-qualified option exercises					308					308
3-for-2 stock split			10,888	109		(109)		(342)		—
Net unrealized gain on securities available for sale							1,132			1,132
Balances at Sept. 26, 1997	—	—	32,665	326	52,599	377,981	341	(869)	(7,971)	423,276
Net income						92,704				92,704
Cash dividends – common stock ($.24 per share)						(11,586)				(11,586)
Purchase of treasury shares								(292)	(5,346)	(5,346)
Employee stock purchases					4,271			261	2,274	6,545
Exercise of stock options					197			403	3,461	3,658
Tax benefit related to non-qualified option exercises					539					539
3-for-2 stock split			16,333	164	(164)			(233)		—
Corporate sale of RJF put options					335					335
Net unrealized loss on securities available for sale							(227)			(227)
Balances at Sept. 25, 1998	—	—	48,998	$490	$57,777	$459,099	$ 114	(730)	$ (7,582)	$509,898

The accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are integral parts of these financial statements.

Consolidated Statement of Cash Flows

(in thousands)

	Year Ended Sept. 25, 1998	Sept. 26, 1997	Sept. 27, 1996
Cash flows from operating activities:			
Net income	$ 92,704	$ 98,915	$ 65,978
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,321	13,312	11,299
Unrealized loss (gain) on investment account securities	773	2,075	(806)
Unrealized loss (gain) and premium amortization on available for sale securities	1,395	(66)	958
(Gain) loss on sale of securities	(1,130)	55	(199)
(Gain) loss on sale of property and equipment	(204)	55	155
Provision for bad debts	(342)	(380)	27
Provision for other accruals	(1,825)	(6,881)	(1,690)
Decrease (increase) in assets:			
Short-term investments	—	—	34,017
Receivables:			
Clients	(207,158)	(226,779)	(62,006)
Stock borrowed	218,200	(206,804)	(88,852)
Brokers, dealers and clearing organizations	(73,194)	(15,338)	24,829
Other	(24,604)	(9,138)	(4,094)
Trading and investment account securities, net	(33,549)	25,975	(18,992)
Deferred income taxes	(8,485)	(3,167)	(209)
Prepaid expenses and other assets	(13,772)	(6,919)	(11,664)
Increase (decrease) in liabilities:			
Payables:			
Clients	639,541	400,752	311,930
Stock loaned	(206,933)	186,440	62,811
Brokers, dealers and clearing organizations	20,975	(34,676)	39,386
Trade and other	20,298	34,091	(514)
Accrued compensation and commissions	16,758	40,481	27,933
Income taxes payable	(7,439)	8,008	4,234
Total adjustments	355,626	201,096	328,553
Net cash provided by operating activities	448,330	300,011	394,531
Cash flows from investing activities:			
Additions to property and equipment	(45,815)	(25,456)	(10,093)
Sales of investment account securities	4,563	4,923	13,332
Sales of available for sale securities	—	18,732	37,718
Purchases of investment account securities	(3,007)	(8,636)	(3,139)
Purchases of available for sale securities	(187,213)	(170,131)	(164,373)
Security maturations and repayments	113,206	48,153	42,213
Net cash used in investing activities	(118,266)	(132,415)	(84,342)
Cash flows from financing activities:			
Repayments on mortgage notes	(12,948)	(193)	(176)
Proceeds from mortgage financing	40,000	—	—
Other borrowed funds	5,000	—	11,990
Repayments on borrowings	(1,500)	(10,490)	(2,510)
Exercise of stock options and employee stock purchases	10,742	6,518	3,676
Purchase of treasury stock	(5,346)	—	(367)
Sale of stock options	335	—	—
Cash dividends on common stock	(11,586)	(9,921)	(7,911)
Net cash provided by (used in) financing activities	24,697	(14,086)	4,702
Net increase in cash and cash equivalents	354,761	153,510	314,891
Cash and cash equivalents at beginning of year	888,780	735,270	420,379
Cash and cash equivalents at end of year	$1,243,541	$ 888,780	$735,270
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 129,367	$ 100,546	$ 88,599
Cash paid for taxes	$ 73,456	$ 55,382	$ 41,371

The accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are integral parts of these financial statements.

Summary of Significant Accounting Policies

Raymond James Financial, Inc. is a holding company which, through its subsidiaries, is engaged principally in the securities brokerage business, including the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. In addition, it provides investment management services for retail and institutional clients and banking and trust services for retail clients. The accounting and reporting policies of Raymond James Financial, Inc. and its subsidiaries (the "Company") conform to generally accepted accounting principles, the more significant of which are summarized below:

Basis of consolidation

The consolidated financial statements include the accounts of Raymond James Financial, Inc. and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

All consolidated subsidiaries are 100% owned by the Company except for RJ Properties, Inc., which is 85% owned.

Reporting period

The Company's fiscal year ends on the last Friday in September of each year.

Recognition of revenues

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

Revenues from investment banking are recorded at the time the transaction is completed and the related income is reasonably determinable. Investment banking revenues include sales credits earned in connection with the distribution of the underwritten securities. Any warrants received in connection with investment banking transactions are carried at a nominal value until such time as the warrants are exercisable and the underlying shares are salable.

The Company earns an advisory fee based on a client's portfolio value on portfolios managed by its investment advisor subsidiaries. These fees are recorded under the accrual method.

Management estimates and assumptions

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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.

Segment reporting

In the fourth quarter of fiscal 1998, the Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of Enterprise and Related Information" ("FAS 131"). FAS 131 supersedes FAS 14, "Financial Reporting for Segments of a Business Enterprise", replacing the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. FAS 131 also requires disclosures about products and services, geographic areas, and major customers. The adoption of FAS 131 did not affect the Company's financial position or results of operations but did affect the disclosure of segment information (see Note 15).

Cash and cash equivalents

The Company considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents for purposes of the consolidated statement of cash flows. These consist primarily of shares of money market funds and of U.S. Treasury Securities purchased under agreements to resell, some of which are held in special reserve accounts, and are stated at cost, which approximates market at fiscal yearend.

It is the Company's policy to obtain possession and control of securities purchased under resale agreements. The net fair value of securities purchased under resale agreements approximates their carrying value, as such financial instruments are predominantly short-term in nature. The Company monitors the risk of loss by assessing the market value of the underlying securities as compared to the related receivable or payable, including accrued interest, and requests additional collateral where deemed appropriate. At September 25, 1998, and September 26, 1997, there were no agreements with any individual counterparties where the risk of loss exceeded 10% of shareholders' equity.

Securities owned

The trading and investment account securities held by the brokerage subsidiaries are classified as trading. Investment account securities not readily marketable are carried at estimated fair value as determined by management with unrealized gains and losses included in earnings. Trading securities are carried at market value with realized and unrealized gains and losses included in earnings. The Company accounts for other securities owned in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). FAS 115 requires investments in debt and equity securities to be classified as either "held to maturity," "trading," or "available for sale." The accounting treatment for unrealized gains and losses on those securities is then determined by the classification chosen. Securities available for sale are carried at estimated market value, with unrealized gains and losses reported as a separate component of shareholders' equity, net of deferred taxes, and realized gains and losses, determined on a specific identification basis, included in earnings.

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation. Depreciation of assets is provided principally using the straight-line method for financial reporting purposes over the estimated useful lives of the assets, which range from two to seven years for furniture and equipment and fifteen to thirty-one 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. For income tax purposes, assets are depreciated using accelerated methods.

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 fixed assets are reflected in income in the period realized.

Goodwill

Goodwill is stated at cost less accumulated amortization. Amortization of goodwill is provided using the straight-line method for financial reporting purposes over three years. Goodwill is reflected in prepaid expenses and other assets.

Correspondent clearing

Under clearing agreements, the Company clears trades for unaffiliated correspondent brokers and retains a portion of commissions as a fee for its services. The Company records clearing charges net of commissions remitted. Total commissions generated by correspondents were $22,244,000, $21,334,000 and $18,742,000, and commissions remitted totaled $17,815,000, $16,832,000 and $14,757,000 for the years ended September 25, 1998, September 26, 1997 and September 27, 1996, respectively.

Income taxes

The Company utilizes the asset and liability approach defined in Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). FAS 109 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.

Net income per share

Net income per share is computed using weighted average common stock and common stock equivalents outstanding. Common stock equivalents include shares issuable under stock options and are determined under the treasury stock method. All per share amounts have been restated to give retroactive effect to the common stock dividends paid on April 2, 1998 and April 3, 1997 (see Note 10), as well as the implementation of Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS 128").

Reclassifications

Certain amounts from prior years have been reclassified for consistency with current year presentation. These reclassifications were not material to the consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 – Receivables From and Payables to Clients:

Receivables from clients include amounts arising from normal cash and margin transactions, bank loans receivable (see Note 7), and fees receivable. Securities owned by brokerage clients are held as collateral for margin receivables. Such collateral is not reflected in the accompanying consolidated financial statements. The amount receivable from clients is shown net of an allowance for doubtful accounts of approximately $1,166,000 and $824,000 as of September 25, 1998 and September 26, 1997, respectively. Unsecured receivables are not significant.

Payables to clients include brokerage client funds on deposit awaiting reinvestment and bank savings accounts and certificates of deposit. The Company pays interest at varying rates on qualifying brokerage client funds on deposit. These funds totaled $1,447,665,000 and $961,857,000 at September 25, 1998 and September 26, 1997, respectively. In addition, the Company pays interest at varying rates on client bank deposits as described in Note 7.

NOTE 2 – Trading and Investment Account Securities (in thousands):

	Sept. 25, 1998		Sept. 26, 1997	
	Securities owned	Securities sold but not yet purchased	Securities owned	Securities sold but not yet purchased
Marketable:				
Stocks and warrants	$ 9,715	$ 5,000	$ 15,212	$ 23,653
Municipal obligations	77,697	55	48,716	1,689
Corporate obligations	1,913	1,197	7,681	5,206
Government obligations	10,547	24,589	22,988	24,717
Other	5,530	—	2,644	33
Non-marketable	490	—	763	—
	$ 105,892	$ 30,841	$ 98,004	$ 55,298

NOTE 3 – Available for Sale Securities (in thousands):

The amortized cost and estimated market values of securities available for sale at September 25, 1998 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities:				
FNMA	$ 178,651	$ 124	$ (79)	$ 178,696
FHLMC	152,510	212	(1)	152,721
GNMA	13,093	265	—	13,358
U.S. Treasury Securities	7,992	69	—	8,061
U.S. Government Obligations	4,994	—	(17)	4,977
Corporate investments	20,527	—	(71)	20,456
Other	7,731	27	(351)	7,407
	$ 385,498	$ 697	$ (519)	$ 385,676

The amortized cost and estimated market values of securities available for sale at September 26, 1997 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage-backed securities:				
FNMA	$ 142,966	$ 307	$ (99)	$ 143,174
FHLMC	137,557	446	(5)	137,998
GNMA	14,457	—	(137)	14,320
U.S. Treasury Securities	7,995	30	—	8,025
U.S. Government Obligations	4,992	—	(8)	4,984
Corporate investments	4,003	4	(2)	4,005
Other	764	16	—	780
	$ 312,734	$ 803	$ (251)	$ 313,286

The U.S. Treasury Securities and U.S. Government Obligations mature after one year and within five years.

NOTE 4 – Leveraged Leases (in thousands):

The Company is the lessor in two leveraged commercial aircraft transactions with major domestic airlines. The Company's combined equity investments represented 21% of the aggregate purchase prices; the remaining 79% was funded by public debt issues in the form of equipment trust certificates. The residual values of the aircrafts at the end of an average lease term of 20 years are projected to be an average of 10% of the original cost. The leases expire in September 2013 and June 2016, respectively.

	Sept. 25, 1998	Sept. 26, 1997
Rents receivable (net of principal and interest on the non-recourse debt)	$ 21,056	$ 21,056
Unguaranteed residual values	10,719	10,719
Unearned income	(8,478)	(9,614)
Investment in leveraged leases	23,297	22,161
Deferred taxes arising from leveraged leases	(23,049)	(19,259)
Net investment in leveraged leases	$ 248	$ 2,902

NOTE 5 – Property and Equipment (in thousands):

	Sept. 25, 1998	Sept. 26, 1997
Land	$ 9,612	$ 9,612
Buildings and improvements	60,059	30,460
Furniture, fixtures, equipment and leasehold improvements	83,904	75,374
	153,575	115,446
Less: accumulated depreciation and amortization	(72,203)	(63,772)
	$ 81,372	$ 51,674

NOTE 6 – Borrowings:

The Company has a mortgage note payable related to the refinancing of two existing buildings at the headquarters complex and additional financing for a third building and adjacent parking garage completed during fiscal year 1998. The mortgage requires monthly principal and interest payments of approximately $291,000 with a balloon payment due January 1, 2008. The mortgage bears interest at 7.37% and is secured by land, buildings and improvements with a net book value of $50,366,000 at September 25, 1998. Principal maturities under this mortgage note payable for the succeeding five years are as follows: $579,420 in 1999, $623,595 in 2000, $671,139 in 2001, $722,307 in 2002, $777,377 in 2003 and $36,437,942 thereafter.

The Company has a $50 million committed, unsecured line of credit with a commercial bank. Borrowings under the line bear interest at the lesser of prime rate or Fed Funds plus .5%, or LIBOR plus .375%. The line of credit requires that the Company maintain certain net worth levels, limits other leases and debt and requires the Company to follow certain other sound business practices. The Company paid $63,000, $63,000, and $64,000 in loan commitment fees on this line during fiscal years 1998, 1997 and 1996, respectively. There were no outstanding borrowings on this line at September 25, 1998 or September 26, 1997. The Company had a separate $50 million line of credit under which borrowings were collateralized by customer securities with a maximum loan to value of fifty percent at an interest rate of one month LIBOR plus .75%. There were borrowings of $1,500,000 under this facility at September 26, 1997. The interest rate on these borrowings ranged from 6.1% to 6.4% during 1997.

The Company also maintains uncommitted lines of credit aggregating $310,000,000 with commercial banks ($235,000,000 secured and $75,000,000 unsecured). Borrowings under the lines of credit bear interest, at the Company's option, at the bank's prime rate, Fed Funds rate plus .5%, or LIBOR plus .75%. There were no short-term borrowings outstanding under these lines at September 25, 1998 or September 26, 1997. The interest rate on these borrowings ranged from 5.58% to 6.84% in 1998, and 5.87% to 7.25% in 1997. Loans on the secured, uncommitted lines of credit are collateralized by firm or client margin securities.

NOTE 7 – Bank Operations and Deposits:

On May 6, 1994, the Company chartered Raymond James Bank, FSB, ("RJ Bank") in conjunction with the purchase of the deposits of certain branches of a federal savings bank from the Resolution Trust Corporation ("RTC") for a nominal purchase price. The Company contributed $25 million in capital to fund RJ Bank's start-up.

A summary of client deposit accounts and weighted average interest rates follows:

$ in thousands	Sept. 25, 1998		Sept. 26, 1997	
	Balance	Weighted-Average Rate	Balance	Weighted-Average Rate
Demand deposits:				
Non-interest bearing	$ 646	—	$ 610	—
Interest bearing	2,229	2.19%	1,665	2.33%
Money markets accounts	12,211	3.85%	5,383	3.94%
Savings accounts	382,767	4.53%	204,496	4.70%
Certificates of deposit (3% - 9%)	52,705	5.67%	87,731	5.68%
	$ 450,558	4.62%	$ 299,885	4.95%

The certificates of deposit mature as follows: $32,172,000 in 1999, $8,381,000 in 2000, $4,135,000 in 2001, $7,005,000 in 2002 and $1,012,000 in 2003. Certificates of deposit and savings accounts in amounts of $100,000 or more at September 25, 1998 and September 26, 1997 were approximately $6,088,958 and $11,763,401, respectively.

A summary of loan distribution at September 25, 1998 and September 26, 1997 is as follows:

$ in thousands	Sept. 25, 1998	Sept. 26, 1997
Residential mortgage loans	$62,173	$18,190
Consumer loans	111	115
	62,284	18,305
Allowance for loan losses	(642)	(191)
Purchase premium	362	308
Deferred origination fees and costs	22	25
	$62,026	$18,447

Activity in the allowance for loan losses for 1998 and 1997 consists solely of the provision for loan losses. There were no actual loan losses in 1998, 1997 or 1996.

There was no recorded investment or interest income recognized on impaired loans during 1998, 1997 and 1996, as there were no impaired loans during these periods.

Generally, mortgage loans are secured by either first or second mortgages on residential property, and consumer loans are secured by time deposit accounts. As of September 25, 1998 and September 26, 1997, all of RJ Bank's loan portfolio was secured.

RJ Bank is subject to various regulatory and capital requirements and was in compliance with all requirements throughout the fiscal years.

Pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), RJ Bank is subject to rules limiting brokered deposits and related interest rates. Under these rules, banks that are deemed "well-capitalized" may accept brokered deposits without restriction, and banks deemed "adequately capitalized" may do so with a waiver from the FDIC. An "undercapitalized" bank is not eligible for a waiver and may not accept brokered deposits. As of September 30, 1998, the most recent notification from the Office of Thrift Supervision categorized RJ Bank as "well capitalized" under the regulatory framework for prompt corrective action.

At September 25, 1998 and September 26, 1997, RJ Bank exceeded the tangible capital, core capital, core/leverage capital, Tier I/risk-based capital and total risk-based capital levels mandated by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and FDICIA. At September 25, 1998 and September 26, 1997, RJ Bank's Tier I capital to average assets ratio was 8.2% and 9.3%, respectively.

NOTE 8 – Federal and State Income Taxes (in thousands):

The provision (benefit) for income taxes consists of:

	Year Ended		
	Sept. 25, 1998	Sept. 26, 1997	Sept. 27, 1996
Current provision:			
Federal	$56,151	$55,864	$35,473
State	9,774	9,655	6,730
	65,925	65,519	42,203
Deferred provision (benefit):			
Federal	(7,120)	(3,306)	383
State	(1,273)	(613)	(39)
	(8,393)	(3,919)	344
	$57,532	$61,600	$42,547

The Company's effective tax rate on pre-tax income differs from the statutory federal income tax rate due to the following:

	Year Ended		
	Sept. 25, 1998	Sept. 26, 1997	Sept. 27, 1996
Provision calculated at statutory rates	$52,637	$56,230	$38,034
State income taxes, net of federal benefit	5,526	5,877	4,349
Other	(631)	(507)	164
	$57,532	$61,600	$42,547

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

	Sept. 25, 1998	Sept. 26, 1997
Deferred tax assets:		
Deferred compensation	$ 35,216	$ 26,653
Accrued expenses	17,376	14,833
Other	13,063	7,489
Total deferred tax assets	65,655	48,975
Deferred tax liabilities:		
Aircraft leases	(23,049)	(19,259)
Other, net	(9,765)	(5,360)
Total deferred tax liabilities	(32,814)	(24,619)
Net deferred tax assets	$ 32,841	$ 24,356

NOTE 9 – Commitments and Contingencies:

Long-term lease agreements expire at various times through 2003. Minimum annual rentals under such agreements for the succeeding five fiscal years are approximately: $10,714,000 in 1999, $9,699,000 in 2000, $9,026,000 in 2001, $8,199,000 in 2002 and $5,135,000 in 2003. Rental expense incurred under all leases, including equipment under short-term agreements, aggregated $11,085,000, $8,802,000, and $7,589,000 in 1998, 1997 and 1996, respectively.

The Company has committed to lend to, or guarantee other debt for, Raymond James Tax Credit Funds Inc. ("RJ Tax Credit") up to $15 million upon request. Any borrowings bear interest at broker call plus 1% per annum. RJ Tax Credit is charged 1% for amounts guaranteed. The borrowings are secured by properties under development. At September 25, 1998 balances of $5,267,137 were loaned to RJ Tax Credit and $2,419,956 were guaranteed. At September 26, 1997, balances of $4,530,000 were loaned to RJ Tax Credit. The commitment expired in November 1998 at which time any outstanding balances were due and payable. On November 19, 1998, the Board of Directors renewed the commitment and increased the amount to $25 million expiring in November 1999.

As part of an effort to increase brand awareness, the Company has entered into a stadium naming rights contract. The contract has a thirteen-year term with a five-year renewal option. The cost for the initial year is $2,150,000 with an annual escalator of 4% in subsequent years.

In the normal course of business, the Company enters into underwriting commitments. Transactions relating to such commitments that were open at September 25, 1998 and were subsequently settled had no material effect on the consolidated financial statements as of that date.

The Company utilizes a letter of credit and deposits with clearing organizations to satisfy margin deposit requirements. At September 25, 1998, and September 26, 1997 the Company had a letter of credit outstanding of $100,000 and client margin securities valued at $62,912,000 and $54,448,000, respectively, on deposit with a clearing organization.

In the normal course of business, the Company, as general partner, is contingently liable for the obligations of various limited partnerships engaged primarily in securities investments and 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.

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 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 result in the imposition of such sanctions. Current proceedings in which the Company is one of the named defendants include the Securities and Exchange Commission ("SEC") investigation of certain trading practices in the over-the-counter securities market during 1994 and 1995, and the SEC, the Internal Revenue Service, and the National Association of Securities Dealers, Inc., review of investment banking practices in connection with advance refunding transactions for municipalities.

The Company is also a defendant or co-defendant in various lawsuits incidental to its securities business. The Company is contesting the allegations of the complaints in these cases and believes that there are meritorious defenses in each of these lawsuits. 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 management, based on discussions with counsel, the outcome of these matters will not result in a material adverse effect on the consolidated financial position or results of operations of the Company.

NOTE 10 – Capital Transactions:

The Company's Board of Directors has, from time to time, adopted resolutions authorizing the Company to repurchase its common stock for the funding of its incentive stock option and stock purchase plans and other corporate purposes. At September 25, 1998, pursuant to prior authorizations from the Board of Directors, 1,207,900 shares were available to be repurchased. At their November 19, 1998 meeting the Company's Board of Directors increased the number of shares authorized for repurchase to 2,500,000.

In February 1998 and 1997, the Company's Board of Directors declared a 3-for-2 stock split in the form of a dividend. The additional shares were distributed on April 2, 1998 and April 3, 1997, respectively, to shareholders of record on March 10, 1998 and March 7, 1997, respectively. All references (unless otherwise noted) in the consolidated financial statements and accompanying notes to amounts per share and to the number of common shares have been restated to give retroactive effect to the stock dividend.

The Company sold equity put options in September 1998 that entitle the holder, at the expiration date, to sell 161,000 shares of common stock to the Company at an exercise price of $17.87 per share. The $335,000 in premiums has been accounted for as additional paid-in capital. At September 25, 1998, these put options, with an aggregate exercise price of $2,877,000 and an expiration date of March 15, 1999, were outstanding. In the event the options are exercised, the Company may elect to pay the holder in cash the difference between the exercise price and the market price of the Company's shares, in lieu of repurchasing the stock. The Company sold additional options for 239,000 shares in October 1998 which expire April 7, 1999 at an exercise price of $18.31 per share.

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. Such benefits become fully vested after seven years of qualified service. 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 deferred management bonus plan is a non-qualified plan that provides retirement benefits for employees who meet certain length of service and compensation requirements. Contributions to these plans are made in amounts approved annually by the Board of Directors. Compensation expense includes aggregate contributions to these plans of $17,299,000, $15,462,000 and $12,527,000, for 1998, 1997 and 1996, respectively.

Stock Compensation Plans

At September 25, 1998 the Company has six stock-based compensation plans, which are described below. In accordance with the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), the Company applies APB Opinion 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for these plans.

If the Company had elected to recognize compensation expense based on the fair value at the grant dates for awards under these plans consistent with the methodology prescribed by FAS 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below:

		Year Ended		
		Sept. 25, 1998	Sept. 26, 1997	Sept. 27, 1996
Net income (in thousands)	As reported	$92,704	$98,915	$65,978
	Pro forma	$88,278	$95,936	$64,902
Net income per share – basic	As reported	$ 1.92	$ 2.09	$ 1.41
	Pro forma	$ 1.83	$ 2.02	$ 1.39
Net income per share – diluted	As reported	$ 1.86	$ 2.04	$ 1.39
	Pro forma	$ 1.77	$ 1.98	$ 1.37

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period and additional options may be granted in future years. For disclosure purposes, the fair value of each fixed option grant 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 1998, 1997 and 1996, respectively: dividend yields of 1.1% for all three years; expected volatility of 44.1%, 32.2% and 31.5%, risk-free interest rates of 5.85%, 6.28%, and 5.89% and expected lives of 5.32, 5.99,and 4.89 years.

Fixed Stock Option Plans

The Company has five fixed stock option plans. Under the 1982 Incentive Stock Option Plan, the Company was able to grant options to its employees for up to 4,275,281 shares of common stock. Under the 1992 Incentive Stock Option Plan, the Company may grant options to its management personnel for up to 4,612,500 shares of common stock. The 1992 Plan was established to replace, on substantially the same terms and conditions, the 1982 Plan. Options are granted to key administrative employees and registered representatives 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.

Under one of the Company's non-qualified stock option plans, the Company may grant up to 2,278,125 shares of common stock to independent contractor registered representatives. Options are exercisable five years after grant date provided that the representative is still associated with the Company. Under the Company's second non-qualified stock option plan, the Company may grant up to 379,688 shares of common stock to the Company's outside directors. Options vest over a five-year period from grant date provided that the director is still serving on the Board of the Company. Under the Company's third non-qualified stock option plan, the Company may grant up to 1,125,000 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 plans, the exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is 10 years.

A summary of the status of the Company's five fixed stock option plans as of September 25, 1998, September 26, 1997 and September 27, 1996, and changes during the years ending on those dates is presented below:

	1998		1997		1996	
	Shares (000s)	Weighted-Average Exercise Price	Shares (000s)	Weighted-Average Exercise Price	Shares (000s)	Weighted-Average Exercise Price
Outstanding at beginning of year	2,539,220	$ 9.37	2,366,094	$17.24	2,085,393	$13.35
Granted	831,340	23.15	779,876	28.23	766,575	22.05
Cancelled	(84,516)	12.32	(191,130)	16.14	(52,713)	14.76
Exercised	(547,999)	6.66	(415,620)	9.92	(433,161)	7.19
Outstanding at yearend	2,738,045	$14.00	2,539,220	$22.59	2,366,094	$17.24
Options exercisable at yearend	215,878		360,691		714,812	
Weighted-average fair value of options granted during the year		$10.26		$ 9.62		$ 8.87

The following table summarizes information about fixed stock options outstanding at September 25, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 9/25/98	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 9/25/98	Weighted-Average Exercise Price
$ 0.00 - 3.16	0	0.0	$ 0.00	0	$ 0.00
$ 3.16 - 6.33	129,558	1.8	6.15	35,368	6.11
$ 6.33 - 9.49	429,096	1.5	7.68	178,035	7.60
$ 9.49 -12.65	1,259,814	3.3	11.07	1,350	9.67
$12.65-15.81	95,625	4.3	13.39	0	0.00
$15.81-18.98	16,875	6.0	17.34	0	0.00
$18.98-22.14	7,500	5.1	19.31	0	0.00
$22.14-25.30	673,377	4.4	22.47	1,125	22.17
$25.30-28.46	101,250	5.1	26.35	0	0.00
$28.46-31.63	24,950	4.9	31.49	0	0.00
	2,738,045	3.3	$14.00	215,878	$ 7.45

Employee Stock Purchase Plan

Under the 1994 Employee Stock Purchase Plan, the Company is authorized to issue up to 1,125,000 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 percent 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 percent of the market price on the day prior to the purchase date. Under the Plan, the Company sold 314,114, 268,607, and 238,944 shares to employees in fiscal years 1998, 1997, and 1996, respectively. The compensation cost which would have been recognized for the fair value of the employees' purchase rights was calculated as the value of the 15% discount from market value. At the November 19, 1998, meeting the Board of Directors voted in favor of, subject to shareholder approval, the adoption of the 1998 Employee Stock Purchase Plan which is intended to replace, on substantially the same terms, the 1994 Plan and authorizes the issuance of 1,500,000 shares of common stock.

Employee Investment Fund

Certain key employees of the Company participate in a limited partnership arrangement in which the Company makes a non-recourse loan to these employees for two thirds of the purchase price per unit of the Raymond James Employee Investment Fund I, L.P. The loan plus interest is intended to be paid back from the earnings of the fund. The fund is invested in the merchant banking activities of the Company and other venture capital limited partnerships.

such transactions are adequately collateralized. If another party to the transaction fails to perform as agreed (such as 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 and dealers, 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 loan from the institution or the collateral from 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 $30,841,000 and $55,298,000 at September 25, 1998 and September 26, 1997, 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 yearend. The Company utilizes short government obligations and equity securities to hedge long proprietary inventory positions. At September 25, 1998, the Company had $24,245,000 in short government obligations and $571,000 in short equity securities which represented hedge positions. At September 26, 1997, the Company had $21,123,000 in short government obligations and $1,925,000 in short equity securities which represented hedge positions.

The Company enters into security transactions involving forward settlement. The Company has recorded transactions with a contract value of $311,252,000 and $196,156,000 and a market value of $315,104,000 and $195,063,000 as of September 25, 1998 and September 26, 1997, 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 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 United States. 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 15 – Segment Analysis:

The Company's reportable segments are: retail distribution, institutional distribution, investment banking, asset management and other. The retail distribution segment includes the 1,052 retail branches of the Company's three broker-dealer subsidiaries located throughout the U.S. These branches provide securities brokerage services including the sale of equities, mutual funds, fixed income products, and insurance to their retail clients. The institutional distribution segment includes fourteen institutional sales offices in the U.S. and six in Europe providing securities brokerage services emphasizing the sale of equities and fixed income products to institutions. The investment banking segment includes management and participation in underwritings (exclusive of sales credits, which are included in the distribution segments), mergers and acquisitions, public finance, trading, research and market making. The asset management segment includes investment portfolio management services of Eagle Asset Management Inc., AWAD Asset Management and RJA's Asset Management Services division and mutual fund management by Heritage Asset Management Inc. In the various programs offered by these entities the clients' funds are professionally managed either in individual accounts or in funds. RJ Bank and the trust companies, the results of operations of international joint ventures, stock loan/stock borrow and earnings on firm capital are included in the segment entitled "other."

The financial results of the Company's segments are the same as those described in the "Summary of Significant Accounting Policies." Segment data includes charges allocating corporate overhead to each segment. Intersegment revenues and charges are eliminated between segments. The Company evaluates the performance of its segments and allocates resources to them based on return on investment.

The Company has not disclosed asset information by segment as the information is not produced internally. All long-lived assets are located in the U.S.

The Company's business is predominantly in the U.S., with only 3% of revenues and 2% of net income coming from international operations.

NOTE 12 – Net Capital Requirements:

The 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 and the rules of the securities exchanges of which Raymond James & Associates, Inc. ("RJA") is a member, whose requirements are substantially the same. This Rule requires that aggregate indebtedness, as defined, not exceed fifteen times net capital, as defined. Rule 15c3-1 also provides for an "alternative net capital requirement" which, if elected, requires that net capital be equal to the greater of $250,000 or two percent of aggregate debit items computed in applying the formula for determination of reserve requirements (see Note 13). The New York Stock Exchange, Inc. may require a member organization 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. Net capital positions of the Company's broker-dealer subsidiaries were as follows:

$ in thousands	Sept. 25, 1998	Sept. 26, 1997
Raymond James & Associates, Inc.:		
(alternative method elected)		
Net capital as a percentage of aggregate debit items	17%	18%
Net capital	$ 149,284	$130,466
Required net capital	17,862	14,665
Excess net capital	$ 131,422	$115,801
Investment Management & Research, Inc.:		
Ratio of aggregate indebtedness to net capital	.84	1.04
Net capital	$ 11,728	$ 7,907
Required net capital	659	548
Excess net capital	$ 11,069	$ 7,359
Robert Thomas Securities, Inc.:		
Ratio of aggregate indebtedness to net capital	5.00	4.10
Net capital	$ 2,219	$ 2,693
Required net capital	740	737
Excess net capital	$ 1,479	$ 1,956

NOTE 13 – Reserve Requirements:

Rule 15c3-3 of the Securities Exchange Act of 1934 specifies certain conditions under which brokers and dealers carrying client accounts are required to maintain cash or qualified securities in a special reserve account for the exclusive benefit of clients. Amounts to be maintained, if required, are computed in accordance with a formula defined in the Rule. At September 25, 1998, Raymond James & Associates, Inc. had $946,724,000 in special reserve accounts which consisted of $946,723,000 of securities purchased under agreements to resell and $1,000 in cash, as compared to a reserve requirement of $925,396,000 at that date. At September 26, 1997, this subsidiary had $692,429,000 in special reserve accounts which consisted of $692,054,000 of U.S. Treasury Securities purchased under agreements to resell and $375,000 in cash, as compared to a reserve requirement of $608,298,000 at that date. At September 25, 1998, such repurchase agreements were on an overnight basis with Deutsche Bank AG, BT Alex Brown, Inc., First Union Capital Markets Corp., and ABN Amro, Inc. At September 26, 1997, such repurchase agreements were on an overnight basis with Deutsche Bank, BT Securities Corporation, First Union Capital Markets Corp., and Morgan Stanley and Company. The Company monitors the market value of the underlying securities as compared to the related receivable, including accrued interest, and requires additional collateral where deemed appropriate.

Investment Management & Research, Inc. and Robert Thomas Securities, Inc. are exempt from the provisions of Rule 15c3-3, since they clear all transactions with and for clients on a fully disclosed basis with Raymond James & Associates, Inc.

NOTE 14 – 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 a 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 $824,726,000 and $796,504,000 respectively, at September 25, 1998 and $1,032,342,000 and $998,698,000, respectively, at September 26, 1997. Additional cash is obtained as necessary to ensure

Information concerning operations in these segments of business is as follows:

	Year Ended Sept. 25, 1998	Sept. 26, 1997	Sept. 27, 1996
Revenue:			
Retail distribution	$ 704,598	$572,807	$462,488
Institutional distribution	146,590	121,411	92,881
Investment banking	57,180	64,192	45,053
Asset management	86,221	61,602	55,413
Other	88,318	76,949	65,917
	$1,082,907	$896,961	$721,752
Gain on sale of Liberty*	—	30,646	—
Total	$1,082,907	$927,607	$721,752
Pretax Income:			
Retail distribution	$ 79,062	$ 71,088	$ 61,289
Institutional distribution	15,747	13,892	9,961
Investment banking	25,405	28,217	17,523
Asset management	22,002	14,935	17,284
Other	8,020	1,737	2,468
	$ 150,236	$129,869	$108,525
Gain on sale of Liberty*	—	30,646	—
Total	$ 150,236	$160,515	$108,525

*See Note 16.

NOTE 16 – Related Parties:

On October 27, 1994, the Company and the then President and Chief Investment Officer of its Eagle Asset Management, Inc. ("Eagle") subsidiary, Herbert E. Ehlers ("Ehlers"), entered into a Separation Agreement by which Ehlers (a director of the Company) and certain other Eagle personnel became employees of a new firm, Liberty Investment Management, Inc. ("Liberty"), effective December 31, 1994. As of January 1, 1995, Liberty assumed the responsibility for providing portfolio management services to institutional growth equity accounts totaling $4.3 billion formerly managed by Eagle.

In accordance with Ehlers' employment agreement, Eagle was to receive 50% of the revenues from these accounts through December 31, 1999, while bearing none of the expenses. In addition, the Company was granted an option to purchase 20% of Liberty in the year 2000 at a predetermined price. For the years ended September 26, 1997 and September 27, 1996, Eagle recognized $2,569,000 and $9,813,000, respectively, in fees from Liberty, which are included in investment advisory fees in the consolidated statement of income.

On January 2, 1997, Liberty sold substantially all of its assets to Goldman Sachs Asset Management, Inc. Accordingly, the Company received a lump sum settlement of $30.6 million for its remaining three years' interest in Liberty's revenue stream and the Company's option to purchase 20% of Liberty at a future date.

NOTE 17 – Subsequent Event:

Subsequent to yearend, the Company announced its intention to merge its two wholly-owned independent contractor subsidiaries, into one entity, Raymond James Financial Services, Inc. ("RJFS"). The two companies will initially operate independently as divisions of RJFS. The merger is expected to be effective in the first calendar quarter of 1999 and will be accounted for at book value in a manner similar to a pooling of interests.

Quarterly Financial Information

(in thousands, except per share amounts)

1998	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Revenues	$252,304	$267,538	$275,791	$287,274
Income before income taxes	36,886	40,534	36,341	36,475
Net income	22,745	24,700	22,791	22,468
Net income per share – basic*	.48	.51	.47	.46
Net income per share – diluted*	.45	.50	.46	.45
Cash dividend declared per share*	.06	.06	.06	.06
Stock price range:				
High*	26.63	29.13	36.50	32.63
Low*	18.00	21.63	28.50	17.07

1997	1st Qtr.	2nd Qtr. **	3rd Qtr.	4th Qtr.
Revenues	$194,819	$249,995	$210,118	$272,675
Income before income taxes	27,998	62,128	27,945	42,444
Net income	17,168	38,130	17,140	26,477
Net income per share – basic*	.37	.81	.35	.56
Net income per share – diluted*	.36	.79	.35	.54
Cash dividend declared per share*	.049	.053	.054	.053
Stock price range:				
High*	13.67	17.00	19.50	24.75
Low*	10.56	12.42	13.00	17.17

* Gives effect to the common stock splits paid on April 2, 1998 and April 3, 1997.

** Amounts include the $30.6 million gain on the sale of Liberty Investment Management, Inc. Excluding this gain, revenues were $219,349,000 and net income was $19,341,000, and basic and diluted net income per share were $.41 and $.40, respectively. See Note 16 of the Notes to Consolidated Financial Statements for details.

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders of
Raymond James Financial, Inc.

In our opinion, based upon our audits and the report of other auditors, the accompanying consolidated statement of financial condition and the related consolidated statements of income, changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Raymond James Financial, Inc. and its subsidiaries at September 25, 1998 and September 26, 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 25, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Raymond James Bank, FSB, a wholly-owned subsidiary, which statements reflect total assets of $510,580,000 and $328,519,000 at September 25, 1998 and September 26, 1997, respectively, and total revenues of $23,199,000, $17,712,000 and $12,121,000 for each of the three years in the period ended September 25, 1998. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Raymond James Bank, FSB, is based solely on the report of the other auditors. We conducted our audits of the consolidated financial statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Tampa, Florida
November 13, 1998

Directors

ANGELA M. BIEVER
Consultant

JONATHAN A. BULKLEY
Managing Director
Barents Group LLC
Emerging markets, capital markets development consulting

ELAINE L. CHAO*
Distinguished Fellow
The Heritage Foundation

THOMAS S. FRANKE
President
Raymond James & Associates

FRANCIS S. GODBOLD
President
Raymond James Financial

M. ANTHONY GREENE
President
Investment Management & Research

HARVARD H. HILL JR.
Managing General Partner
Houston Partners
Venture capital

HUNTINGTON A. JAMES
Vice President
Corporate Client Services

THOMAS A. JAMES
Chairman of the Board and Chief Executive Officer
Raymond James Financial and Raymond James & Associates

DR. PAUL MARSHALL
Professor of Management at Harvard Graduate School of Business Administration

J. STEPHEN PUTNAM
President
Robert Thomas Securities

ROBERT F. SHUCK
Vice Chairman
Raymond James Financial

DENNIS W. ZANK
Executive Vice President, Operations and Administration
Raymond James & Associates

* Appointed November 1998.

Officers

THOMAS A. JAMES
Chairman of the Board and Chief Executive Officer

ROBERT F. SHUCK
Vice Chairman

FRANCIS S. GODBOLD
President

M. ANTHONY GREENE
Executive Vice President

J. STEPHEN PUTNAM
Executive Vice President

RICHARD K. REISS
Executive Vice President

JEFFREY P. JULIEN
Vice President, Finance and Chief Financial Officer

MARY JEAN KISSNER
Vice President, Tax Manager

LYNN PIPPENGER
Treasurer

BARRY S. AUGENBRAUN
Senior Vice President
Corporate Secretary

JENNIFER C. ACKART
Controller

LAWRENCE A. SILVER
Investor Relations

Corporate and Shareholder Information

Number of Shareholders
At December 10, 1998, there were approximately 10,000 shareholders of record.

10-K
The annual report to the Securities and Exchange Commission on form 10-K is available. A copy may be obtained upon request in writing to Investor Relations Department, Raymond James Financial, Inc., 880 Carillon Parkway, St. Petersburg, FL 33716.

Annual Meeting
The 1998 annual meeting of shareholders will be conducted at Raymond James Financial's headquarters in The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, Florida on January 28, 1999, at 4:00 p.m.

Notice of the annual meeting, proxy statement and proxy voting card accompany this report to shareholders.

Quarterly reports are mailed to shareholders in February, May, August and December.

Transfer Agent Registrar
ChaseMellon Shareholder Services
Ridgefield, New Jersey

Independent Accountants
PricewaterhouseCoopers LLP
Tampa, Florida

Attorneys
Schifino and Fleischer, P.A.
Tampa, Florida

Corporate Counsel
Paul L. Matecki

Raymond James & Associates' Exchange Memberships
New York Stock Exchange
American Stock Exchange
Boston Stock Exchange
Chicago Board of Options Exchange
Chicago Stock Exchange
New York Futures Exchange
Pacific Stock Exchange
Philadelphia Stock Exchange

New York Stock Exchange Symbol
RJF

Principal Subsidiaries

Raymond James & Associates, Inc.
Securities broker/dealer
Member New York Stock Exchange

Investment Management
& Research, Inc.
Securities broker/dealer

Robert Thomas Securities, Inc.
Securities broker/dealer

Eagle Asset Management, Inc.
Asset management

Heritage Asset Management, Inc.
Mutual fund management

Planning Corporation of America
General insurance agency

Raymond James Bank, FSB
FDIC-insured depository

Raymond James Trust Company
Trust services

Sound Trust Company
Trust services

For additional information, please visit our Web site at raymondjames.com.

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Appendix 4:

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Works Cited

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Appendix 5:

Senior Project Approval and Prospectus