AMERITRADE HOLDING CORP
Form 10-Q/A
December 10, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT No. 1

(Mark One)

(X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended June 25, 2004

OR

( ) Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________

Commission file number: 0-49992

AMERITRADE HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**82-0543156**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4211 South 102nd Street, Omaha, Nebraska
68127
(Address of principal executive offices)
(Zip Code)
(402) 331-7856
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months, and (2) has been subject to such filing requirements for the past ninety days. Yes (X) No ( )

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes (X) No ( )

As of July 30, 2004, there were 409,052,378 outstanding shares of the registrant s Common Stock.

TABLE OF CONTENTS

Table of Contents

AMERITRADE HOLDING CORPORATION

INDEX

Table of Contents

Explanatory Note

This Amendment is being filed to reflect the restatement of the Company s condensed consolidated financial statements, as discussed in Note 13 thereto, and other information related to such restated financial information. Except for Items I, II and IV of Part I, no other information included in the original report on Form 10-Q is amended by this Form 10-Q/A.

Table of Contents

Part I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Ameritrade Holding Corporation
Omaha, Nebraska

We have reviewed the accompanying condensed consolidated balance sheet of Ameritrade Holding Corporation and subsidiaries (collectively the Company) as of June 25, 2004, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended June 25, 2004 and June 27, 2003, and of cash flows for the nine-month periods ended June 25, 2004 and June 27, 2003. These interim financial statements are the responsibility of the Company s management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Ameritrade Holding Corporation and subsidiaries as of September 26, 2003, and the related consolidated statements of operations, stockholders equity, and cash flows for the year then ended (not presented herein); and in our report dated November 6, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 26, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in Note 13, the accompanying 2004 condensed consolidated financial statements have been restated.

/s/ Deloitte & Touche LLP

August 2, 2004 (December 9, 2004 as to the effects of the restatement described in Note 13)

Omaha, Nebraska

Table of Contents

Ameritrade Holding Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share amounts)

	June 25, 2004	September 26, 2003
	(As restated, see Note 13)	
ASSETS		
Cash and cash equivalents	$ 129,756	$ 248,623
Cash and investments segregated in compliance with federal regulations	7,690,780	7,878,421
Receivable from brokers, dealers and clearing organizations	2,926,533	2,921,732
Receivable from clients and correspondents net of allowance for doubtful accounts	3,373,808	2,202,170
Property and equipment net of accumulated depreciation and amortization	33,488	36,159
Goodwill	770,390	734,903
Acquired intangible assets net of accumulated amortization	249,836	238,147
Investments	80,909	91,740
Other assets	292,516	52,373
Total assets	$15,548,016	$ 14,404,268
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 3,711,835	$ 3,142,436
Payable to clients and correspondents	10,315,671	9,611,243
Accounts payable and accrued liabilities	154,564	169,569
Prepaid variable forward derivative instrument	36,551	46,668
Prepaid variable forward contract obligation	37,394	36,194
Convertible subordinated notes		46,295
Income taxes payable	26,579	34,351
Deferred income taxes	77,970	81,738
Total liabilities	14,360,564	13,168,494
Commitments and contingencies		
Stockholders equity:		
Preferred Stock, $0.01 par value; 100,000,000 shares authorized, none issued		
Common Stock, $0.01 par value; 650,000,000 shares authorized; 435,081,860	4,351	4,351

shares issued		
Additional paid-in capital	1,195,051	1,188,444
Retained earnings	273,324	58,172
Treasury stock, Common, at cost June 25, 2004 24,850,707 shares; Sept. 26, 2003 5,297,346 shares	(312,121)	(41,452)
Deferred compensation	982	708
Accumulated other comprehensive income	25,865	25,551
Total stockholders equity	1,187,452	1,235,774
Total liabilities and stockholders equity	$15,548,016	$ 14,404,268

5

Table of Contents

Ameritrade Holding Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	June 25, 2004	**June 27, 2003**	**June 25, 2004**	**June 27, 2003**
Revenues:				
Commissions and clearing fees	$136,231	$129,019	$457,635	$337,899
Interest revenue	64,562	43,265	180,433	122,765
Other	21,891	21,221	63,112	71,455
Total revenues	222,684	193,505	701,180	532,119
Client interest expense	2,692	4,994	7,884	15,447
Net revenues	219,992	188,511	693,296	516,672
Expenses:				
Employee compensation and benefits	40,384	38,725	118,588	131,072
Clearing and execution costs	8,260	8,660	24,155	26,720
Communications	10,936	11,087	31,382	34,135
Occupancy and equipment costs	10,720	12,285	32,080	44,506
Depreciation and amortization	5,897	8,267	17,458	24,621
Professional services	8,957	6,317	24,053	27,044
Interest on borrowings	565	1,306	1,959	3,612
Gain on disposal of property	(199)	(17)	(575)	(5,134)
Other	5,254	2,938	16,607	13,622
Advertising	27,197	16,527	80,414	75,554
Restructuring and asset impairment charges		612		5,659
Total expenses	117,971	106,707	346,121	381,411
Pre-tax income	102,021	81,804	347,175	135,261
Provision for income taxes	39,763	31,933	132,023	53,732

Net income		$ 62,258	$ 49,871	$215,152	$ 81,529
Basic earnings per share		$ 0.15	$ 0.12	$ 0.51	$ 0.19
Diluted earnings per share		$ 0.15	$ 0.12	$ 0.50	$ 0.19
Weighted average shares outstanding	basic	415,252	424,695	420,599	427,454
Weighted average shares outstanding	diluted	424,002	430,495	430,386	430,735

See notes to condensed consolidated financial statements.

Table of Contents

Ameritrade Holding Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended	
	June 25, 2004	**June 27, 2003**
	(As restated, see Note 13)	
Cash flows from operating activities:		
Net income	$ 215,152	$ 81,529
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	8,469	10,998
Amortization of intangible assets	8,989	13,623
Deferred income taxes	(1,008)	28,265
Gain on disposal of property	(575)	(5,134)
Loss/(gain) on debt retirement	791	(182)
Other non-cash expenses, net	1,825	707
Changes in operating assets and liabilities:		
Cash and investments segregated in compliance with federal regulations	187,641	(1,675,619)
Brokerage receivables	(1,030,228)	(1,213,252)
Other assets	(239,356)	5,626
Brokerage payables	1,129,936	2,906,478
Accounts payable and accrued liabilities	(20,535)	(92,810)
Income taxes payable	4,336	(51,456)
Net cash flows from operating activities	265,437	8,773
Cash flows from investing activities:		
Purchase of property and equipment	(6,011)	(6,565)
Proceeds from sale of property and equipment	15	24,772
Cash paid in business combinations, net	(56,350)	(5,215)
Purchase of investments	(36)	
Net cash flows from investing activities	(62,382)	12,992
Cash flows from financing activities:		
Proceeds from notes payable	42,500	

Proceeds from prepaid variable forward contract		35,489
Principal payments on notes payable	(89,328)	(1,168)
Proceeds from exercise of stock options and other	13,103	26,278
Purchase of treasury stock	(288,633)	(61,460)
Payments received on stockholder loans	428	10,122
Net cash flows from financing activities	(321,930)	9,261
Effect of exchange rate changes on cash and cash equivalents	8	135
Net increase (decrease) in cash and cash equivalents	(118,867)	31,161
Cash and cash equivalents at beginning of period	248,623	198,398
Cash and cash equivalents at end of period	$ 129,756	$ 229,559
Supplemental cash flow information:		
Interest paid	$ 10,258	$ 17,946
Income taxes paid	$ 128,672	$ 76,921
Noncash investing and financing activities:		
Tax benefit on exercise of stock options	$ 12,154	$ 8,063

See notes to condensed consolidated financial statements.

Table of Contents

AMERITRADE HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Columnar amounts in thousands, except per share amounts)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of Ameritrade Holding Corporation and its wholly owned subsidiaries (collectively, the Company). All intercompany balances and transactions have been eliminated.

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s annual report filed on Form 10-K for the fiscal year ended September 26, 2003.

Certain items in prior year condensed consolidated financial statements have been reclassified to conform to the current presentation.

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (FIN No. 46). In December 2003, the FASB issued FASB Interpretation No. 46R, which served to clarify guidance in FIN No. 46. The FASB deferred the effective date for applying the provisions of FIN No. 46 for certain variable interest entities to periods ending after March 15, 2004. The implementation of FIN No. 46, as revised, had no impact on the Company s consolidated financial statements.

2. BUSINESS COMBINATIONS, GOODWILL AND ACQUIRED INTANGIBLE ASSETS

On June 7, 2004, the Company announced that Ameritrade, Inc., a wholly owned subsidiary of the Company, signed a definitive agreement to purchase the online retail accounts of JB Oxford & Company, a subsidiary of JB Oxford Holdings, Inc. The purchase price will not exceed $26 million. The transaction is expected to close during Fall 2004, subject to regulatory approval and approval of JB Oxford Holdings, Inc. shareholders.

On January 2, 2004, the Company completed the acquisition of Bidwell & Company (Bidwell) for $55 million, including $2 million that was deposited into an escrow account for indemnification purposes. The Company utilized cash on hand to fund the acquisition. The Company allocated approximately $19.1 million of the Bidwell purchase price to acquired intangible assets for the fair value of the Bidwell client relationships, to be amortized over a 15-year period; and $0.3 million to the fair value of a noncompete agreement, to be amortized over a three-year period. Amounts allocated to Bidwell acquired intangible assets, and their respective amortization periods, were based on an independent valuation.

On February 13, 2004, the Company completed its purchase of approximately 11,000 online brokerage accounts from BrokerageAmerica LLC. The purchase price was $1.25 million. The entire purchase price has been allocated to acquired intangible assets for the fair value of the BrokerageAmerica LLC client relationships. This intangible asset is being amortized over a 15-year period.

The Company has recorded goodwill for purchase business combinations to the extent the purchase price of each acquisition exceeded the fair value of the net identifiable assets of the acquired company. The following table summarizes changes in the carrying amount of goodwill by reportable segment for the nine months ended June 25, 2004:

	Private Client Division	All Other	Total
Balance as of September 26, 2003	$ 734,814	$ 89	$734,903
Goodwill recorded in Bidwell acquisition	36,749		$ 36,749
Tax benefit of option exercises (1)	(1,262)		$ (1,262)
Balance as of June 25, 2004	$ 770,301	$ 89	$770,390

Table of Contents

(1) Represents the tax benefit of exercises of replacement stock options that were issued in connection with the Datek merger. The tax benefit of an option exercise is recorded as a reduction of goodwill to the extent the Company recorded fair value of the replacement option in the purchase accounting. To the extent any gain realized on an option exercise exceeds the fair value of the replacement option recorded in the purchase accounting, the tax benefit on the excess is recorded as additional paid-in capital.

The Company s acquired intangible assets consist primarily of client relationship intangible assets and had a carrying value of $249.8 million, net of $21.3 million of accumulated amortization as of June 25, 2004. The Company expects amortization expense on existing acquired intangible assets to be $3.1 million for the remainder of fiscal 2004 and approximately $12.4 million for each of the five succeeding fiscal years.

3. INVESTMENTS

The Company s investments consist primarily of ownership of approximately 7.9 million shares of Knight Trading Group, Inc. (Knight), representing approximately seven percent of Knight s outstanding common shares as of June 25, 2004. Knight is a publicly held company that is a market maker in equity securities. The Company accounts for its investment in Knight as a marketable equity security available-for-sale. As of June 25, 2004 and September 26, 2003, the Company s investment in Knight was valued at $79.8 million and $90.0 million, respectively. The Company s cost basis is $0.7 million; therefore the gross unrealized gain was $79.1 million and $89.3 million at June 25, 2004 and September 26, 2003, respectively.

During fiscal 2003, the Company and a counterparty entered into a series of prepaid variable forward contracts on the Knight shares. The forward contracts mature on various dates in fiscal years 2006 and 2007. The forward contracts each contain a zero-cost embedded collar on the value of the Knight shares, with a weighted average floor price of $5.13 per share and a weighted average cap price of $6.17 per share. The Company has designated the forward contracts as cash flow hedges of the forecasted future sales of 7.9 million Knight shares. Accordingly, all changes in the fair value of the embedded collars are recorded in other comprehensive income, net of income taxes. As of June 25, 2004 and September 26, 2003, the total fair value of the embedded collars was approximately $36.6 million and $46.7 million, respectively, and was included under the caption Prepaid variable forward derivative instrument on the condensed consolidated balance sheet.

The following table summarizes the Company s investments, liabilities associated with the prepaid variable forward contracts, and related deferred income tax effects (see Note 11 for a complete summary of comprehensive income):

	June 25, 2004	September 26, 2003	Difference (Other Comprehensive Income)
Assets			
Investment in Knight	$ 79,785	$ 89,986	$ (10,201)
Investment in The Nasdaq Stock Market, Inc.	510	624	(114)
Total marketable equity securities	80,295	90,610	$ (10,315)

Other investments	614	1,130	N/A
Total investments	$ 80,909	$ 91,740	N/A
Liabilities			
Prepaid variable forward derivative instrument	$(36,551)	$ (46,668)	$ 10,117
Prepaid variable forward contract obligation	$(37,394)	$ (36,194)	N/A
Deferred income taxes on unrealized (gains)/losses:			
Marketable equity securities	$(30,696)	$ (35,608)	$ 4,912
Derivative instrument	14,255	18,667	(4,412)
Deferred income taxes on unrealized (gains)/losses, net	$(16,441)	$ (16,941)	$ 500

Table of Contents

4. RESTRUCTURING AND EXIT LIABILITIES

The following table summarizes activity in the Company s restructuring and acquisition exit liabilities for the three-month and nine-month periods ended June 25, 2004:

	Three Months Ended June 25, 2004			
	Balance at Mar. 26, 2004	Restructuring Charges	Paid and Charged Against Liability	Balance at June 25, 2004
Restructuring liabilities:				
Employee compensation and benefits	$ 229	$	$ 213	$ 16
Occupancy and equipment costs	938		461	477
Professional services	1,493			1,493
Other	3,040		69	2,971
Total restructuring liabilities	$ 5,700	$	$ 743	$ 4,957
Acquisition exit liabilities:				
Employee compensation and benefits	$ 4,186	$	$ 1,595	$ 2,591
Occupancy and equipment costs	5,370		127	5,243
Total acquisition exit liabilities	$ 9,556	$	$ 1,722	$ 7,834

	Nine Months Ended June 25, 2004			
	Balance at Sept. 26, 2003	Restructuring Charges	Paid and Charged Against Liability	Balance at June 25, 2004
Restructuring liabilities:				
Employee compensation and benefits	$ 1,262	$	$ 1,246	$ 16
Occupancy and equipment costs	2,153		1,676	477
Professional services	1,493			1,493
Other	3,178		207	2,971

Total restructuring liabilities	$ 8,086	$	$ 3,129	$ 4,957
Acquisition exit liabilities:				
Employee compensation and benefits	$ 2,707	$ 4,146	$ 4,262	$ 2,591
Occupancy and equipment costs	4,913	1,016	686	5,243
Total acquisition exit liabilities	$ 7,620	$ 5,162	$ 4,948	$ 7,834

The Company expects to pay the employee compensation restructuring liabilities during fiscal 2004. The Company expects to utilize the remaining occupancy and equipment, professional services and other restructuring liabilities over the respective lease periods through fiscal 2015. Acquisition employee compensation liabilities are expected to be paid in fiscal 2004 and early fiscal 2005. Remaining acquisition occupancy and equipment exit liabilities are expected to be utilized over the respective lease periods through fiscal 2011.

5. CREDIT FACILITIES

On December 15, 2003, the Company entered into a third amended and restated revolving credit agreement. The revolving credit agreement permits borrowings of up to $75 million through December 13, 2004, and is secured primarily by the Company s stock in its subsidiaries and personal property. The interest rate on borrowings, determined on a monthly basis, is equal to the lesser of (i) the prime rate or (ii) one month LIBOR plus 2.0 percent. At June 25, 2004, the interest rate on the revolving credit agreement would have been 3.33 percent. The Company also pays a commitment fee of 0.25 percent of the unused borrowings through the maturity date. The Company had no outstanding indebtedness under the revolving credit agreement at June 25, 2004 and no outstanding indebtedness under the prior revolving credit agreement at September 26, 2003. The revolving credit agreement contains certain covenants and restrictions, including limitations on borrowings based on the amount of excess net capital at the Company s broker-dealer subsidiaries, requiring prior written consent of the revolving lenders for certain business combinations and investments, and prohibiting the payment of cash dividends to stockholders. The Company was in compliance with or obtained waivers for all covenants under the revolving credit agreements.

The Company, through its wholly owned broker-dealer subsidiaries Ameritrade, Inc., iClearing LLC (iClearing) and Ameritrade Northwest, Inc. (formerly Bidwell) had access to secured credit facilities with financial institutions of up to $180 million and $160 million as of June 25, 2004 and September 26, 2003, respectively. Ameritrade, Inc. and Ameritrade Northwest, Inc. also had access to unsecured credit facilities of up to $310 million as of June 25, 2004 and September 26, 2003. The financial institutions may make loans under line of credit arrangements or, in some cases, issue letters of credit under these facilities. The secured credit facilities require the Company to pledge client securities to secure outstanding obligations under these facilities. There were no borrowings outstanding under the secured or unsecured credit facilities as of June 25, 2004 or September 26, 2003. Letters of credit in the amount of $40 million as of September 26, 2003, were issued on behalf of the Company and reduced the amount available for borrowings under these credit facilities. The letters of credit, which were for the benefit of a securities clearinghouse, were issued for the contingent purpose of financing and supporting margin requirements. The Company is generally required to pledge client securities to secure letters of credit under these credit facilities. No letters of credit were issued as of June 25, 2004. As of June 25, 2004 and September 26, 2003, approximately $490 million and $430 million, respectively, was available to the Company for either loans or, in some cases, letters of credit.

6. CONVERTIBLE SUBORDINATED NOTES

On October 23, 2003, the Company redeemed the remaining $46.3 million of convertible subordinated notes for an amount equal to 101.15 percent of the principal amount, resulting in a loss on the redemption of approximately $0.8 million which is included in other expense in the condensed consolidated statement of operations.

7. NET CAPITAL

The Company s broker-dealer subsidiaries are subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934 (the Exchange Act)), which requires the maintenance of minimum net capital, as defined. Net capital and the related net capital requirement may fluctuate on a daily basis.

Reflecting the effect of a regulatory matter discussed in the following paragraphs, the Company s broker-dealer subsidiaries had aggregate net capital of $19.4 million and $279.5 million as of June 25, 2004 and September 26, 2003, respectively, resulting in an aggregate net capital deficiency of $58.2 million as of June 25, 2004 and excess aggregate minimum net capital of $224.4 million as of September 26, 2003. Excluding the effect of the regulatory matter, the Company s aggregate net capital would have been $262.7 million as of June 25, 2004, which would have exceeded aggregate minimum net capital requirements by $185.1 million.

On November 12, 2004, the Company s broker-dealer subsidiary Ameritrade, Inc. was notified by the staff of the NASD and the staff of the SEC Division of Market Regulation (collectively the Staffs) that they believe that for regulatory purposes certain funds held in banks on behalf of clients are liabilities and assets of Ameritrade, Inc. rather than liabilities and assets only of the banks. The resulting assets have not been allowed for purposes of Ameritrade, Inc. s regulatory net capital calculation. Accordingly, in the Staffs view Ameritrade, Inc. s net capital was below its minimum amount required under Exchange Act Rule 15c3-1. Ameritrade, Inc. cured the asserted deficiency on November 15, 2004, the first business day following the notification.

The asserted deficiency was based upon the Staffs concerns regarding a Federal Deposit Insurance Corporation (FDIC) insured deposit sweep program available to Ameritrade, Inc. s clients wherein funds were deposited, through an intermediary agent, into FDIC-insured deposit accounts at banks (Program Banks). The Staffs view is that Ameritrade, Inc. did not for regulatory purposes effectively move client free credit balances to bank accounts established in client names at the Program Banks. Ameritrade, Inc. was also notified, on November 5, 2004, by the NASD that client funds deposited in the FDIC-insured sweep program should be included in Ameritrade, Inc. s computation of reserve requirements under Exchange Act Rule 15c3-3. A deposit into Ameritrade, Inc. s reserve account was made to fund the asserted Rule 15c3-3 requirement effective November 5, 2004. As of June 25, 2004, a deposit of $243.3 million into Ameritrade, Inc. s reserve account would have been required in accordance with the

Staffs position.

Ameritrade, Inc. informed the Staffs that it believes that the free credit balances were effectively transferred to the Program Banks in accordance with well-established banking law, that the accounts held at the Program Banks were the obligations of the Program Banks to each client and not obligations of Ameritrade, Inc. and that the FDIC insurance passed through to each client in accordance with FDIC regulations. Accordingly, Ameritrade, Inc. believes that it has been in compliance with Rules 15c3-1 and 15c3-3.

At the direction of the NASD, Ameritrade, Inc. filed a notice describing the asserted net capital deficiency as well as Ameritrade, Inc. s position on the matter on November 12, 2004 in accordance with Exchange Act Rule 17a-11. Ameritrade, Inc. cured the asserted deficiency the first business day following the notification by causing the transfer of the cash in the FDIC-insured accounts to a money market fund in accounts in the names of the clients. No client funds were lost and the Company believes that the client balances in the FDIC-insured deposit accounts at the Program Banks were, at all times, protected by FDIC insurance on a pass-through basis and no client balance was at risk. Ameritrade, Inc. has ceased offering the

Table of Contents

FDIC-insured product pending resolution of this matter. At the direction of the NASD, Ameritrade, Inc. filed, on December 8, 2004, amended Form X-17A-5 Financial and Operational Combined Uniform Single (FOCUS) reports for the months of May through September 2004 reflecting the Staffs position.

This matter had no impact on the Company s results of operations or net cash flows for any period presented.

The Company continues to discuss this matter with the Staffs. The SEC or NASD may elect to pursue disciplinary or other action with respect to this matter, which could result in censures, fines, suspensions or other sanctions. The Company is unable to predict the outcome of this matter.

8. STOCK OPTION AND INCENTIVE PLANS

Effective September 27, 2003, the Company adopted the fair value based method of accounting for stock-based compensation under Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, using the prospective transition method of SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123*. Stock-based employee compensation expense for the three months and nine months ended June 25, 2004 was insignificant. Pro forma information regarding stock-based compensation expense, net income and earnings per share is required by SFAS No. 148. This information is presented as if the Company had accounted for its stock-based awards under the fair value method for all periods:

	Three Months Ended		Nine Months Ended	
	June 25, 2004	**June 27, 2003**	**June 25, 2004**	**June 27, 2003**
Net income, as reported	$ 62,258	$ 49,871	$ 215,152	$ 81,529
Add: Stock-based compensation expense included in reported net income, net of related income tax effects	16		24	
Less: Total stock-based compensation determined under the fair value based method, net of related income tax effects	(3,665)	(5,029)	(10,971)	(10,686)
Pro forma net income	$ 58,609	$ 44,842	$ 204,205	$ 70,843
Basic earnings per share:				
As reported	$ 0.15	$ 0.12	$ 0.51	$ 0.19
Pro forma	$ 0.14	$ 0.10	$ 0.47	$ 0.16
Diluted earnings per share:				
As reported	$ 0.15	$ 0.12	$ 0.50	$ 0.19
Pro forma	$ 0.14	0.10	$ 0.47	$ 0.16

9. COMMITMENTS AND CONTINGENCIES

Legal In September 1998, a putative class action complaint was filed against the Company by Zannini, et al. in the District Court of Douglas County, Nebraska, claiming the Company was not able to handle the volume of subscribers to its Internet brokerage services. The complaint, as amended, seeks injunctive relief enjoining alleged deceptive, fraudulent and misleading practices, equitable relief compelling the Company to increase capacity, and unspecified compensatory damages. In May 2001, the Company filed a motion for summary judgment in the matter, which the plaintiffs opposed. The District Court granted summary judgment for the Company on January 2, 2002, and the plaintiffs appealed. On August 1, 2003, the Nebraska Supreme Court reversed the District Court s grant of summary judgment and remanded the case to the District Court for further proceedings. The Nebraska Supreme Court did not decide whether the plaintiffs claims have merit. On October 8, 2003, the Company filed with the District Court a renewed motion for summary judgment. The District Court held a hearing on the summary judgment motion on December 5, 2003. The District Court has not yet ruled on the motion. The Company believes it has adequate legal defenses and intends to continue to vigorously defend against this action.

In October 2003, Keener, a pro se plaintiff, filed a putative class action against the Company, Knight Trading Group, Inc. and certain individuals in the United States District Court for the District of Nebraska. The plaintiff asserts his action on behalf of persons who became clients of the Company during the period from March 29, 1995 through September 30, 2003. As it pertains to the Company, the principal allegations of the complaint are that the Company had an indirect and direct equity interest in Knight, to which it directed most of its orders for execution; that the Company failed to accurately disclose the nature of its relationship with Knight and the consideration it received from Knight for directing order flow to Knight; and that clients of Ameritrade did not receive best execution of their orders from Knight and the Company. The plaintiff claims that the Company s conduct violated certain provisions of the federal securities laws, including Sections 11Ac, 10(b) and 3(b) of the

Table of Contents

Securities Exchange Act of 1934 (the Exchange Act), and SEC rules promulgated thereunder. Plaintiff further claims the individual defendants, including a present director and a former director of the Company, are liable under Section 20(a) of the Exchange Act as controlling persons for the claimed wrongs attributed to the Company and Knight. In his prayer for relief, plaintiff requests monetary damages and/or rescissionary relief in the amount of $4.5 billion against all defendants, jointly and severally. In January 2004, the Company, Knight and the individual defendants filed motions to dismiss the complaint and to deny class certification or strike the class action allegations. In July 2004 the District Court granted the Company defendants motion to deny class certification and to stay the action pending arbitration. The District Court ruled that plaintiff must amend the complaint to delete all references to class members. The District Court ruled that if plaintiff files an amended complaint, the Company defendants may reassert a motion to compel arbitration and, if the motion is filed, the claims against the Company defendants will be stayed pending arbitration. The District Court also granted the Knight defendants motion to dismiss and to strike to the extent of denying certification of a plaintiff class. The District Court ruled that plaintiff must file an amended complaint that deletes all references to class members and that cures all additional defects. The Company and the defendant directors of the Company believe they have adequate legal defenses and they intend to continue to vigorously defend against this action.

In August 2003, the Company, as a successor to National Discount Brokers Corporation (NDB), was served with a lawsuit filed in the District Court of Harris County, Texas, by Robert Ketchand, a court appointed receiver, against a number of defendants including Christopher A. Slaga, a bank, and NDB. The complaint, as amended, alleges that Slaga defrauded investors who invested approximately $21 million in limited partnerships that Slaga created and controlled and converted the moneys entrusted to him for investment. Two of the investors, who allegedly invested approximately $18 million, intervened in the lawsuit. The complaint states that Slaga, presently incarcerated, pled guilty to federal wire fraud violations in connection with the conduct alleged in the complaint and that the federal court in the criminal proceeding ordered Slaga to make restitution to the investors in the amount of approximately $19.7 million. As it pertains to the Company, the complaint alleges that Slaga wire transferred funds from the partnerships bank accounts into his personal brokerage account at NDB and that Slaga used the money for highly speculative investments. The complaint alleges that an inquiry by NDB would have disclosed that money in Slaga s personal accounts belonged to the partnerships and that NDB failed to examine the trading activities of Slaga and should have discovered the impropriety of his investments. The complaint includes causes of action against NDB for aiding and abetting Slaga s securities fraud under the Texas Securities Act, for unjust enrichment, and for funds transferred to NDB under a theory of implied contract. The receiver and the interveners have requested damages in an amount to be proven at trial, including the amount of the restitution order, plus interest, attorneys fees and costs. The Company believes it has adequate legal defenses and intends to continue to vigorously defend against this action.

The nature of the Company s business subjects it to lawsuits, arbitrations, claims and other legal proceedings. Management cannot predict with certainty the outcome of pending legal proceedings. A substantial adverse judgment or other resolution regarding the proceedings could have a material adverse effect on the Company s financial condition, results of operations and cash flows. However, in the opinion of management, after consultation with legal counsel, the Company has adequate legal defenses with respect to the legal proceedings to which it is a defendant or respondent and the outcome of these pending proceedings is not likely to have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

NASD Investigation On March 11, 2004 the Company reached a settlement with the National Association of Securities Dealers, Inc. (NASD) resolving all issues related to the NASD s investigation into specified client trading in cash accounts that had occurred at Datek Online Financial Services, LLC, iClearing and Ameritrade, Inc. Under the terms of the settlement, the Company agreed to censures and to pay NASD a fine of $10 million. As part of the settlement, the Company neither admitted nor denied the allegations; there were no allegations of monetary harm to investors. Approximately $7.8 million of the settlement was included in accruals recorded in connection with the merger with Datek Online Holdings Corp. The remaining amount was also accrued for in prior periods. The settlement had no impact on the Company s consolidated statement of operations for the nine months ended June 25, 2004.

General Contingencies - In the ordinary course of business, there are various contingencies which are not reflected in the condensed consolidated financial statements. These include Ameritrade, Inc., iClearing and Ameritrade Northwest, Inc. client activities involving the execution, settlement and financing of various client securities transactions. These activities may expose the Company to credit risk in the event the clients are unable to fulfill their contracted obligations.

Client securities activities are transacted on either a cash or margin basis. In margin transactions, the Company may extend credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client s account. In connection with these activities, the Company also executes and clears client transactions involving the sale of securities not yet purchased (short sales). Such margin-related transactions may expose the Company to credit risk in the event each client s assets are not sufficient to fully cover losses which clients may incur. In the event the client fails to satisfy its obligations, the Company has the authority to purchase or sell financial instruments in the client s account at prevailing market prices in order to fulfill the client s obligations.

Table of Contents

The Company seeks to control the risks associated with its client activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels throughout each trading day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

The Company loans securities temporarily to other broker-dealers in connection with its broker-dealer business. The Company receives cash as collateral for the securities loaned. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its client obligations. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis and requiring additional cash as collateral when necessary, and by participating in a risk-sharing program offered through a securities clearinghouse.

The Company borrows securities temporarily from other broker-dealers in connection with its broker-dealer business. The Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the market value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return the cash deposited, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis, and by requiring collateral to be returned by the counterparties when necessary.

As of June 25, 2004, client margin securities of approximately $4.7 billion and stock borrowings of approximately $2.9 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned or repledged approximately $4.1 billion of that collateral as of June 25, 2004.

The Company is a member of and provides guarantees to securities clearinghouses and exchanges. Under related agreements, the Company is generally required to guarantee the performance of other members. Under the agreements, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company s liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under these agreements is remote. Accordingly, no contingent liability is carried on the condensed consolidated balance sheet for these transactions.

Employment Agreements The Company has entered into employment agreements with several of its key executive officers. These employment agreements generally provide for annual base salary and incentive compensation, stock option acceleration and severance payments in the event of termination of employment under certain defined circumstances or changes in control of the Company. Compensation is subject to adjustments according to the Company s financial performance and other factors.

As of September 26, 2003, the Company had an equity index swap arrangement for the purpose of hedging its obligation under its Chief Executive Officer (CEO) deferred compensation plan. Effective April 15, 2004, the CEO changed his investment election under the deferred compensation arrangement from an equity index to a group of fixed income securities. Accordingly, the Company terminated its equity index swap arrangement. As of June 25, 2004, the group of fixed income securities was earning interest at an annual rate of approximately 1.4 percent.

10. SEGMENT INFORMATION

Financial information for the Company s Private Client Division, which is the Company s only reportable segment, and all other segments, is presented in the following tables. The totals are equal to the Company s consolidated amounts as reported in the condensed consolidated statements of operations.

	Three Months Ended June 25, 2004			Nine Months Ended June 25, 2004		
	Private Client Division	All Other	Total	Private Client Division	All Other	Total
Non-interest revenues	$ 151,954	$ 6,168	$ 158,122	$ 503,606	$ 17,141	$ 520,747
Interest revenue, net	60,590	1,280	61,870	167,434	5,115	172,549
Net revenues	$ 212,544	$ 7,448	$ 219,992	$ 671,040	$ 22,256	$ 693,296
Pre-tax income (loss)	$ 109,447	$ (7,426)	$ 102,021	$ 361,611	$ (14,436)	$ 347,175

Table of Contents

	Three Months Ended June 27, 2003			Nine Months Ended June 27, 2003		
	Private Client Division	All Other	Total	Private Client Division	All Other	Total
Non-interest revenues	$ 146,357	$ 3,883	$ 150,240	$ 390,068	$ 19,286	$ 409,354
Interest revenue, net	37,131	1,140	38,271	103,786	3,532	107,318
Net revenues	$ 183,488	$ 5,023	$ 188,511	$ 493,854	$ 22,818	$ 516,672
Pre-tax income (loss)	$ 79,206	$ 2,598	$ 81,804	$ 142,230	$ (6,969)	$ 135,261

11. COMPREHENSIVE INCOME

Comprehensive income is as follows:

	Three Months Ended		Nine Months Ended	
	June 25, 2004	June 27, 2003	June 25, 2004	June 27, 2003
Net income	$ 62,258	$ 49,871	$ 215,152	$ 81,529
Other comprehensive income (loss):				
Net unrealized holding gains (losses) on investment securities available-for-sale arising during the period	(19,116)	19,459	(10,315)	19,459
Net unrealized holding gains (losses) on derivative instrument arising during the period	17,675	(13,270)	10,117	(9,877)
Adjustment for deferred income taxes on net unrealized holding gains/losses	562	(2,476)	500	(3,833)
Foreign currency translation adjustment	77	65	12	135
Total other comprehensive income (loss), net of tax	(802)	3,778	314	5,884
Comprehensive income	$ 61,456	$ 53,649	$ 215,466	$ 87,413

12. RELATED PARTY TRANSACTION

In November 2003, the Company purchased 7.5 million shares of its Common Stock from certain stockholders (and certain donees of those shares) concurrent with a secondary offering by those stockholders of approximately 43.1 million shares of their Common Stock. The Company acquired the 7.5 million shares from the selling stockholders at the net public offering price of $12.159 per share. The selling stockholders and the respective quantities of shares sold to the Company are as follows:

Selling Stockholders	Shares	Amount Paid
Entities affiliated with Bain Capital	3,255,035	$ 39,577,971
Entities affiliated with Silver Lake Partners	2,208,875	26,857,711
Entities affiliated with TA Associates, Inc.	1,480,559	18,002,117
J. Joe Ricketts and Marlene M. Ricketts	540,726	6,574,687
J. Peter Ricketts	14,805	180,014
Total	7,500,000	$ 91,192,500

The total shares sold by entities affiliated with Bain Capital includes 541,450 shares contributed by certain partners and other employees of the Bain Capital entities to certain charities prior to the offering. The charities sold the donated shares to the Company concurrent with the offering. Stephen G. Pagliuca, a director of the Company, is Managing Director of Bain Capital. Glenn H. Hutchins, a director of the Company, is a Managing Member of Silver Lake Partners. C. Kevin Landry, a director of the Company, is a Managing Director and Chief Executive Officer of TA Associates, Inc. J. Joe Ricketts is Chairman and Founder of the Company. J. Peter Ricketts is the Company s Executive Vice President and Chief Operating Officer and serves as Vice Chairman of the Board of Directors. The secondary offering was conducted pursuant to the terms of a registration rights agreement dated July 26, 2002 entered into among the Company and the selling stockholders, among others, in connection with the Datek merger. In accordance with the terms of the registration rights agreement, the Company paid various expenses of the offering totaling approximately $0.6 million.

Table of Contents

13. RESTATEMENT

Subsequent to the issuance of the Company s condensed consolidated financial statements for the quarter ended June 25, 2004 and as discussed in Note 7, the Company s broker-dealer subsidiary Ameritrade, Inc. was notified by the staff of the NASD and the staff of the SEC Division of Market Regulation (collectively the Staffs) that they believe that for regulatory purposes certain funds held in banks on behalf of clients are liabilities and assets of Ameritrade, Inc. rather than liabilities and assets only of the banks. Accordingly, the Company has reflected the related assets and liabilities on the consolidated balance sheet and has modified its disclosure of net capital as of June 25, 2004 in accordance with the Staffs position.

As a result, the accompanying condensed consolidated balance sheet as of June 25, 2004 has been restated from the amounts previously reported. A summary of the significant effects of the restatement is as follows:

	As Previously Reported	As Restated	Difference
Other assets	$ 49,192	$ 292,516	$ 243,324
Payable to clients and correspondents	$ 10,072,347	$ 10,315,671	$ 243,324

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 26, 2003, and the Condensed Consolidated Financial Statements and Notes thereto contained in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from those anticipated in such forward-looking statements. Important factors that may cause such differences include, but are not limited to: general economic and political conditions, volatility in the stock market, changes in client trading activity, competition, systems failures and capacity constraints, regulatory and legal uncertainties and the other risks and uncertainties set forth under the heading Risk Factors in Item 7 of the Company s annual report on Form 10-K for the fiscal year ended September 26, 2003. The forward-looking statements contained in this report speak only as of the date on which the statements were made. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise.

In particular, the following statements contained in this discussion are forward-looking statements: our expectations regarding the effect of client trading activity on our results of operations; our expectations regarding average commissions and clearing fees per trade; our expectations regarding growth of net interest revenue; our expectations regarding the effect of client trading activity on account maintenance fee revenues; our expected amounts of employee compensation and benefits, professional services and advertising expenses; our expectations regarding our effective income tax rate; our anticipated capital and liquidity needs and our plans to finance such needs; and our expectations regarding the impact of recently issued accounting pronouncements.

Our significant accounting policies are disclosed in the Notes to Consolidated Financial Statements for the fiscal year ended September 26, 2003. In the opinion of management, we do not have any critical accounting policies which routinely involve unusually difficult, subjective or complex judgments.

Unless otherwise indicated, the terms we , us or Company in this report refer to Ameritrade Holding Corporation and its wholly owned subsidiaries. The term GAAP refers to generally accepted accounting principles in the United States.

Restatement

As discussed in Note 13 to the condensed consolidated financial statements, the Company s June 25, 2004 condensed consolidated balance sheet and condensed consolidated statements of cash flows have been restated. The accompanying management s discussion and analysis gives effect to this restatement.

Table of Contents

GLOSSARY OF TERMS

In discussing and analyzing our business, we utilize several metrics and other terms that are defined in the following Glossary of Terms. *Italics* indicate other defined terms that appear elsewhere in the Glossary.

Glossary of Terms

Account maintenance fees A $15 quarterly fee assessed on funded *brokerage accounts* with less than $2,000 in total *liquidation value*. This fee is not assessed if:

- the account is a *beneficiary account* or *IRA account*,
- the account has been open less than six months, or
- at least four trades have been executed in the account in the last six months.

This fee is assessed at the close of business on the last Friday of the second month of each quarter (February, May, August, and November).

Activity rate *Average client trades per day* during the period divided by the average number of *total accounts* during the period.

Average client trades per account (annualized) *Total trades* divided by the average number of *total accounts* during the period, annualized based on the number of *trading days* in the fiscal year.

Average client trades per day *Total trades* divided by the number of *trading days* in the period.

Average commissions and clearing fees per trade Total commissions and clearing fee revenues as reported on the Company s Statement of Operations divided by *total trades* for the period. Commissions and clearing fee revenues primarily consist of trading commissions and revenue-sharing arrangements with market destinations (also referred to as payment for order flow).

Beneficiary accounts *Brokerage accounts* managed by a custodian, guardian, conservator or trustee on behalf of one or more beneficiaries. Examples include Uniform Gift to Minors Act (UGMA), Uniform Transfer to Minors Act (UTMA), guardianship, conservatorship, trust, pension or profit plan for small business accounts.

Brokerage accounts Accounts maintained by the Company on behalf of clients for securities brokerage activities. The primary types of brokerage accounts are *cash accounts*, *margin accounts*, *IRA accounts* and *beneficiary accounts*.

Cash accounts *Brokerage accounts* that do not have *margin account* approval.

Clearing accounts Accounts for which the Company serves as the clearing broker/dealer on behalf of an unaffiliated introducing broker/dealer. The Company charges a fee to the introducing broker/dealer to process trades in clearing accounts.

Client assets The total value of cash and securities in *brokerage accounts*.

Client credit balances Client cash held in *brokerage accounts*, excluding balances generated by client short sales, on which no interest is paid. Interest paid on client credit balances is a reduction of *net interest revenue*.

Client margin balances The total amount of cash loaned to clients in *margin accounts*. Such loans are secured by client assets. Interest earned on client margin balances is a component of *net interest revenue*.

EBITDA EBITDA (earnings before interest, taxes, depreciation and amortization) is considered a Non-GAAP financial measure as defined by SEC Regulation G. We consider EBITDA an important measure of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA eliminates the non-cash effect of tangible asset depreciation and intangible asset amortization. EBITDA should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

Table of Contents

Glossary of Terms

EPS from ongoing operations EPS from ongoing operations is considered a Non-GAAP financial measure as defined by SEC Regulation G. We define EPS from ongoing operations as earnings (loss) per share, adjusted to remove any significant unusual gains or charges. We consider EPS from ongoing operations an important measure of the financial performance of our ongoing business. Unusual gains and charges are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. EPS from ongoing operations should be considered in addition to, rather than as a substitute for, basic and diluted earnings per share.

Expenses excluding advertising Expenses excluding advertising is considered a Non-GAAP financial measure as defined by SEC Regulation G. Expenses excluding advertising consists of total expenses, adjusted to remove advertising expense. We consider expenses excluding advertising an important measure of the financial performance of our ongoing business. Advertising spending is excluded because it is largely at the discretion of the Company, varies significantly from period to period based on market conditions and relates to the acquisition of future revenues through new accounts rather than current revenues from existing accounts. Expenses excluding advertising should be considered in addition to, rather than as a substitute for, total expenses.

IRA accounts (Individual Retirement Arrangements) A personal trust account for the exclusive benefit of a U.S. individual (or his or her beneficiaries) that provides tax advantages in accumulating funds to save for retirement or other qualified purposes. These accounts are subject to numerous restrictions on additions to and withdrawals from the account, as well as prohibitions against certain investments or transactions conducted within the account. The Company offers traditional, Roth, Savings Incentive Match Plan for Employees (SIMPLE) and Simplified Employee Pension (SEP) IRA accounts.

Liquid assets Liquid assets is considered a Non-GAAP financial measure as defined by SEC Regulation G. We define liquid assets as the sum of a) non broker-dealer cash and cash equivalents, b) the market value, net of tax, of our investment in Knight Trading Group, Inc. that is not subject to a prepaid variable forward contract for future sale and c) regulatory net capital of our broker-dealer subsidiaries in excess of 5% of aggregate debit items. We consider liquid assets an important measure of our liquidity and of our ability to fund corporate investing and financing activities. Liquid assets should be considered in addition to, rather than as a substitute for, cash and cash equivalents.

Liquidation value The net value of a client s account holdings as of the close of a regular trading session. Liquidation value includes client cash and the value of long security positions, less margin balances and the cost to buy back short security positions.

Margin accounts *Brokerage accounts* in which clients may borrow from the Company to buy securities or for any other purpose, subject to regulatory and Company-imposed limitations.

Net interest revenue Net interest revenue is interest revenues less client interest expense. Interest revenues are generated by charges to clients on margin balances maintained in *margin accounts* and the investment of cash from operations and *segregated cash* in short-term marketable securities. Client interest expense consists of amounts paid or payable to clients based on credit balances maintained in *brokerage accounts* and other brokerage-related interest expense. Client interest expense does not include interest on Company borrowings.

Operating margin Operating margin is considered a Non-GAAP financial measure as defined by SEC Regulation G. We define operating margin as pre-tax income, adjusted to remove advertising expense and any unusual gains or charges. We consider operating margin an important measure of the financial performance of our ongoing business. Advertising spending is excluded because it is largely at the discretion of the Company, varies significantly from period to period based on market conditions and relates to the acquisition of future revenues through new accounts rather than current revenues from existing accounts. Unusual gains and charges are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. Operating margin should be considered in addition to, rather than as a substitute for, pre-tax income and net income.

Qualified accounts All open client accounts with a total *liquidation value* greater than or equal to $2,000, except *clearing accounts*. Historically, qualified accounts have generated the vast majority of the Company s revenues. The Company s normal account-opening requirement for non-*IRA accounts* is $2,000. Additionally, accounts with $2,000 or more of liquidation value are not subject to *account maintenance fees* and may be eligible for *margin account* approval.

Table of Contents

Glossary of Terms

Segregated cash Client cash and investments segregated in compliance with SEC Rule 15c3-3 (the Customer Protection Rule) and other regulations. Interest earned on segregated cash is a component of *net interest revenue*.

Total accounts All open client accounts (funded and unfunded), except *clearing accounts*.

Total trades All client securities trades, which are executed by the Company s broker/dealer subsidiaries on an agency basis. Total trades are the principal source of the Company s revenues. Such trades include, but are not limited to, trades in equities, options, mutual funds and debt instruments. Substantially all trades generate revenue from commissions, transaction fees and/or revenue-sharing arrangements with market destinations (also known as payment for order flow).

Trading days Days in which the U.S. equity markets are open for a full trading session. Reduced exchange trading sessions are treated as half trading days.

RESULTS OF OPERATIONS

Improved conditions in the U.S. equity markets have significantly impacted our results of operations during fiscal 2004. There is a positive correlation between the volume of our clients trading activity and our results of operations. We cannot predict future trading volumes in the U.S. equity markets. If client trading activity improves, we expect that it would have a positive impact on our results of operations. If client trading activity were to decline, we expect that it would have a negative impact on our results of operations.

Financial Performance Metrics

Pre-tax income, operating margin and EBITDA (earnings before interest, taxes, depreciation and amortization) are key metrics we use in evaluating our financial performance. Operating margin and EBITDA are both considered non-GAAP financial measures as defined by SEC Regulation G.

We define operating margin as pre-tax income, adjusted to remove advertising expense and any unusual gains or charges. We consider operating margin an important measure of the financial performance of our ongoing business. Advertising spending is excluded because it is largely at the discretion of the Company, varies significantly from period to period based on market conditions and relates to the acquisition of future revenues through new accounts rather than current revenues from existing accounts. Unusual gains and charges are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. Operating margin should be considered in addition to, rather than as a substitute for, pre-tax income and net income.

We consider EBITDA an important measure of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA eliminates the non-cash effect of tangible asset depreciation and intangible asset amortization. EBITDA should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

The following tables set forth operating margin and EBITDA in dollars and as a percentage of net revenues for the periods indicated, and provide reconciliations to pre-tax income, which is the most directly comparable GAAP measure (dollars in thousands):

	Three months ended				Nine months ended			
	June 25, 2004		June 27, 2003		June 25, 2004		June 27, 2003	
	$	% of Rev.	$	% of Rev.	$	% of Rev.	$	% of Rev.
Operating Margin								
Operating margin	$129,019	58.6%	$ 98,926	52.5%	$427,014	61.6%	$211,340	40.9%
Less:								
Advertising	(27,197)	-12.4%	(16,527)	-8.8%	(80,414)	-11.6%	(75,554)	-14.6%
Gain on disposal of property	199	0.1%	17	0.0%	575	0.1%	5,134	1.0%
Restructuring and asset impairment charges	0	0.0%	(612)	-0.3%	0	0.0%	(5,659)	-1.1%
Pre-tax income	$102,021	46.4%	$ 81,804	43.4%	$347,175	50.1%	$135,261	26.2%
EBITDA								
EBITDA	$108,483	49.3%	$ 91,377	48.5%	$366,592	52.9%	$163,494	31.6%
Less:								
Depreciation and amortization	(5,897)	-2.7%	(8,267)	-4.4%	(17,458)	-2.5%	(24,621)	-4.8%
Interest on borrowings	(565)	-0.3%	(1,306)	-0.7%	(1,959)	-0.3%	(3,612)	-0.7%
Pre-tax income	$102,021	46.4%	$ 81,804	43.4%	$347,175	50.1%	$135,261	26.2%

Table of Contents

Our improved pre-tax income, operating margin and EBITDA for the three- and nine-month periods ended June 25, 2004 compared to the three- and nine-month periods ended June 27, 2003 are largely due to significantly increased net revenues resulting primarily from increased client trading volumes and increased client margin and credit balances. While net revenues increased, we did not incur corresponding significant increases in expenses. More detailed analysis of net revenues and expenses is presented later in this discussion.

Trading Activity and Account Metrics

The following table sets forth several operating metrics, which we utilize in measuring and evaluating performance and the results of our operations:

	Three months ended		%	Nine months ended		%
	June 25, 2004	**June 27, 2003**	**Change**	**June 25, 2004**	**June 27, 2003**	**Change**
Average client trades per day	163,906	154,294	6%	183,013	138,186	32%
Average client trades per account (annualized)	11.8	12.4	(5%)	13.7	11.3	21%
Activity rate	4.7%	5.0%	(6%)	5.5%	4.5%	22%
Total trades (in millions)	10.16	9.72	5%	33.95	25.84	31%
Average commissions and clearing fees per trade	$ 13.41	$ 13.27	1%	$ 13.48	$ 13.08	3%
Trading days	62.0	63.0	(2%)	185.5	187.0	(1%)
Total accounts (ending)	3,487,000	3,130,000	11%			
Qualified accounts (ending)	1,720,000	1,465,000	17%			
Client assets (ending, in billions)	$ 71.5	$ 48.0	49%			

Net Interest Revenue Metrics

The following tables set forth metrics that we use in analyzing net interest revenue:

	Three months ended June 25, 2004		Three months ended June 27, 2003		Percentage Change in Average Balances	Average Annualized Yield/Cost Inc./(Dec.)
	Average Balance (millions)	**Average Annualized Yield/(Cost)**	**Average Balance (millions)**	**Average Annualized Yield/(Cost)**		
Segregated cash	$ 7,481	1.00%	$ 7,092	1.19%	5%	(0.19%)
Client margin balances	$ 3,550	4.86%	$ 1,556	5.05%	128%	(0.19%)
Client credit balances	$ 9,104	(0.12%)	$ 7,533	(0.26%)	21%	(0.14%)

	Nine months ended June 25, 2004		Nine months ended June 27, 2003		Percentage	Average

	Average Balance (millions)	Average Annualized Yield/(Cost)	Average Balance (millions)	Average Annualized Yield/(Cost)	Change in Average Balances	Annualized Yield/Cost Inc./(Dec.)
Segregated cash	$ 7,577	0.99%	$ 6,438	1.28%	18%	(0.29%)
Client margin balances	$ 3,213	4.89%	$ 1,448	4.97%	122%	(0.08%)
Client credit balances	$ 8,858	(0.12%)	$ 6,882	(0.28%)	29%	(0.16%)

Three-Month Periods Ended June 25, 2004 and June 27, 2003

Net Revenues.

Commissions and clearing fees increased six percent to $136.2 million for the third quarter of fiscal 2004 from $129.0 million for the third quarter of fiscal 2003, primarily due to higher average client trades per day and increased average commissions and clearing fees per trade. Average client trades per day increased six percent to 163,906 for the third quarter of fiscal 2004 from 154,294 in the third quarter of fiscal 2003. Average client trades per account (annualized) were 11.8 for the third quarter of fiscal 2004, compared to 12.4 for the third quarter of fiscal 2003, while the number of qualified accounts increased 17 percent to 1.72 million as of June 25, 2004, compared to 1.47 million as of June 27, 2003. Historically, qualified accounts have generated the vast majority of our revenues. Average commissions and clearing fees per trade increased to $13.41 in the third quarter of fiscal 2004 from $13.27 for the third quarter of fiscal 2003, due primarily to higher payment for order flow revenue per trade during the third quarter of fiscal 2004 compared to the third quarter of fiscal 2003, partially offset by the effect of changes in the mix of client trading activity. We expect average commissions and clearing fees per trade to range from approximately $13.10 to $13.60 per trade during the fourth quarter of fiscal 2004, depending on the mix of trading activity, level of payment for order flow revenue and other factors.

Net interest revenue increased 62 percent to $61.9 million for the third quarter of fiscal 2004 from $38.3 million for the third quarter of fiscal 2003, due primarily to a 128 percent increase in average client margin balances, a decrease of 14 basis points

Table of Contents

in the average interest rate paid on client credit balances and a five percent increase in average segregated cash in the third quarter of fiscal 2004 compared to the third quarter of fiscal 2003. The increased net interest revenue resulting from these factors was partially offset by a decrease of 19 basis points in the average interest rate charged on client margin balances, a decrease of 19 basis points in the average interest rate earned on segregated cash and an increase of 21 percent in average client credit balances in the third quarter of fiscal 2004 from the third quarter of fiscal 2003. We generally expect net interest revenue to grow as our account base grows. However, it will also be affected by changes in interest rates and fluctuations in the levels of client margin and credit balances.

Other revenues increased three percent to $21.9 million for the third quarter of fiscal 2004 from $21.2 million for the third quarter of fiscal 2003, due primarily to higher money market, reorganization and other fee income, partially offset by a $1.9 million decrease in account maintenance fee revenue in fiscal 2004. Account maintenance fees are charged based on client assets and trading activity, therefore fluctuations in client assets or trades per account may result in fluctuations in revenues from account maintenance fees.

Expenses.

Employee compensation and benefits expense increased four percent to $40.4 million for the third quarter of fiscal 2004 compared to $38.7 million for the third quarter of fiscal 2003. Full-time equivalent employees increased to 1,970 at June 25, 2004, from 1,796 at June 27, 2003, primarily due to the addition of client service employees in fiscal 2004 to accommodate increased client accounts and trading volume. The effect of the increased client service employees was partially offset by the elimination of duplicate clearing and technology functions during fiscal 2003 in connection with the Datek merger integration. We expect employee compensation expense to range between $36 million and $43 million for the fourth quarter of fiscal 2004.

Clearing and execution costs include incremental third-party expenses that tend to fluctuate as a result of fluctuations in client accounts or trades. Examples of expenses included in this category are statement and confirmation processing and postage costs and clearing expenses paid to the National Securities Clearing Corporation, option exchanges and other market centers. Clearing and execution costs decreased five percent to $8.3 million for the third quarter of fiscal 2004 from $8.7 million for the third quarter of fiscal 2003, as the impact of higher client trading volumes was offset by the effect of eliminating duplicate clearing and execution costs subsequent to the Datek merger in fiscal 2003.

Communications expense was virtually unchanged at $10.9 million for the third quarter of fiscal 2004 compared to $11.1 million for the third quarter of fiscal 2003, as increased expense for quotes and market information was offset by lower telecommunications expenses.

Occupancy and equipment costs decreased 13 percent to $10.7 million for the third quarter of fiscal 2004 from $12.3 million for the third quarter of fiscal 2003, due to facilities and equipment reductions during fiscal 2003 resulting from the Datek merger.

Depreciation and amortization decreased 29 percent to $5.9 million for the third quarter of fiscal 2004 from $8.3 million for the third quarter of fiscal 2003, due primarily to the effects of noncompete agreements related to the Datek merger that expired and became fully amortized by the end of fiscal 2003 and tangible assets that have become fully depreciated.

Professional services expense increased 42 percent to $9.0 million for the third quarter of fiscal 2004, from $6.3 million for the third quarter of fiscal 2003, due primarily to new corporate development initiatives in fiscal 2004. We expect professional services expense to range between $7 million and $9 million for the fourth quarter of fiscal 2004.

Advertising expenses increased 65 percent to $27.2 million for the third quarter of fiscal 2004 from $16.5 million for the third quarter of fiscal 2003. We have increased our advertising spending during fiscal 2004 in an effort to increase the number of new accounts, due primarily to improved stock market conditions. We expect approximately $16 million to $34 million of advertising expenditures for the fourth quarter of fiscal 2004, depending on market conditions. We generally adjust our level of advertising spending in relation to stock market activity, in an effort to maximize the number of new accounts while minimizing the advertising cost per new account.

Our effective income tax rate was approximately 39 percent for the third quarters of both fiscal 2004 and fiscal 2003. The Datek integration has resulted in a larger percentage of our payroll and assets being located in lower income tax states such as Nebraska and Texas as opposed to higher income tax states such as New York and New Jersey, resulting in the 39 percent effective income tax rate for the third quarter of fiscal 2004. We expect our effective income tax rate for the fourth quarter of fiscal 2004 to remain approximately 39 percent. Our effective income tax rate for the third quarter of fiscal 2003 was also 39 percent, due primarily to the utilization of state tax credits resulting from the consolidation of the Company s clearing function in Nebraska in March 2003.

Nine-Month Periods Ended June 25, 2004 and June 27, 2003

Net Revenues.

Commissions and clearing fees increased 35 percent to $457.6 million in the first nine months of fiscal 2004 from $337.9 million in the first nine months of fiscal 2003, primarily due to higher client trading volumes and increased commissions and clearing fees per trade. Average client trades per day increased 32 percent to 183,013 in the first nine months of fiscal 2004 from 138,186 in the first nine months of fiscal 2003. Average client trades per account (annualized) were 13.7 during the first nine months of fiscal 2004, compared to 11.3 during the first nine months of fiscal 2003, while the number of qualified accounts increased 17 percent to 1.72 million as of June 25, 2004, compared to 1.47 million as of June 27, 2003. Historically, qualified accounts have generated the vast majority of our revenues. Average commissions and clearing fees per trade increased to $13.48 in the first nine months of fiscal 2004 from $13.08 in the first nine months of fiscal 2003, due primarily to higher payment for order flow revenue per trade during the first nine months of fiscal 2004 compared to the first nine months of fiscal 2003.

Net interest revenue increased 61 percent to $172.5 million in the first nine months of fiscal 2004 from $107.3 million in the first nine months of fiscal 2003, due primarily to a 122 percent increase in average client margin balances, an 18 percent increase in average segregated cash and a decrease of 16 basis points in the average interest rate paid on client credit balances in the first nine months of fiscal 2004 compared to the first nine months of fiscal 2003. The increased net interest revenue resulting from these factors was partially offset by a decrease of 29 basis points in the average interest rate earned on segregated cash, a decrease of eight basis points in the average interest rate charged on client margin balances and an increase of 29 percent in client credit balances in the first nine months of fiscal 2004 from the first nine months of fiscal 2003.

Other revenues decreased 12 percent to $63.1 million in the first nine months of fiscal 2004 from $71.5 million in the first nine months of fiscal 2003, due primarily to lower account maintenance fee income in the first nine months of fiscal 2004 and decreased licensing fee revenue due to the shutdown of our Watcher Technologies business in fiscal 2003, partially offset by higher money market fee income for the first nine months of fiscal 2004.

Expenses.

Employee compensation and benefits expense decreased 10 percent to $118.6 million in the first nine months of fiscal 2004 from $131.1 million in the first nine months of fiscal 2003, due primarily to the elimination of duplicate clearing and technology functions during fiscal 2003 in connection with the Datek merger integration, partially offset by client service employees added during fiscal 2004 to accommodate increased client trading volume. Full-time equivalent employees totaled 1,970 at June 25, 2004, compared to 1,796 at June 27, 2003. During the first nine months of fiscal 2003, we also incurred approximately $4.0 million of compensation expense for stock appreciation rights assumed in the Datek merger, due to increases in our stock price and costs of a cash-out offer to SAR holders. As of June 25, 2004, there were approximately 12,000 remaining SARs outstanding with a weighted average exercise price of $4.89 per share, compared with approximately 3.8 million SARs outstanding at the beginning of fiscal 2003.

Clearing and execution costs decreased 10 percent to $24.2 million for the first nine months of fiscal 2004 compared to $26.7 million for the first nine months of fiscal 2003, due primarily to approximately $3 million in refunds and adjustments in the second quarter of fiscal 2004 for clearing and execution costs related to previous periods and the effect of eliminating duplicate clearing and execution costs subsequent to the Datek merger in fiscal 2003, partially offset by the effect of higher client trading volumes.

Communications expense decreased 8 percent to $31.4 million in the first nine months of fiscal 2004 compared to $34.1 million in the first nine months of fiscal 2003, due primarily to the elimination of duplicate telecommunications, quotes and market information infrastructure subsequent to the Datek merger in fiscal 2003, partially offset by the effect of higher client trading volumes.

Occupancy and equipment costs decreased 28 percent to $32.1 million in the first nine months of fiscal 2004 from $44.5 million in the first nine months of fiscal 2003, due to facilities and equipment reductions during fiscal 2003 resulting from the Datek merger and lower technology licensing costs.

Depreciation and amortization decreased 29 percent to $17.5 million in the first nine months of fiscal 2004 from $24.6 million in the first nine months of fiscal 2003, due primarily to the effects of noncompete agreements related to the Datek merger that expired and became fully amortized by the end of fiscal 2003 and tangible assets that have become fully depreciated.

Professional services expense decreased 11 percent to $24.1 million in the first nine months of fiscal 2004 from $27.0 million in the first nine months of fiscal 2003. This decrease was primarily due to increased usage of consulting services during fiscal 2003 related to the Datek merger integration.

Table of Contents

Gain on disposal of property includes approximately $5.7 million of gain recognized on the sale/leaseback of our Kansas City data center facility in the first nine months of fiscal 2003.

Advertising expenses increased six percent to $80.4 million in the first nine months of fiscal 2004 from $75.6 million in the first nine months of fiscal 2003. We have increased our advertising spending during fiscal 2004 in an effort to increase the number of new accounts, due primarily to improved stock market conditions in fiscal 2004.

Restructuring and asset impairment charges during the first nine months of fiscal 2003 consisted primarily of severance pay and benefits for approximately 110 employees in connection with the closing of our TradeCast business and consolidation of the Ameritrade and Datek technology organizations, and non-cancelable lease costs in connection with the closing of the TradeCast business.

Our effective income tax rate was approximately 38 percent for the first nine months of fiscal 2004, compared to approximately 40 percent for the first nine months of fiscal 2003. The Datek integration has resulted in a larger percentage of our payroll and assets being located in lower income tax states such as Nebraska and Texas as opposed to higher income tax states such as New York and New Jersey. We expect our effective income tax rate for the fourth quarter of fiscal 2004 to be approximately 39 percent. The adjustment to our net deferred income tax liabilities to apply the current 39 percent rate resulted in a lower than normal effective income tax rate for the first nine months of fiscal 2004.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our liquidity and capital needs primarily through the use of funds generated from operations and from borrowings under our credit agreements. We have also issued Common Stock and convertible subordinated notes to finance mergers and acquisitions and for other corporate purposes. Our liquidity and capital needs during the first nine months of fiscal 2004 were financed primarily from our earnings and cash on hand, and, to a lesser extent, borrowings on our credit facilities. We plan to finance our capital and liquidity needs primarily from our earnings and cash on hand. In addition, we may utilize our revolving credit facility or issue equity or debt securities.

Dividends from our subsidiaries are another source of liquidity for the holding company. Some of our subsidiaries are subject to requirements of the SEC and NASD relating to liquidity, capital standards, and the use of client funds and securities, which may limit funds available for the payment of dividends to the holding company.

Under the SEC s Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934), our broker-dealer subsidiaries are required to maintain at all times at least the minimum level of net capital required under Rule 15c3-1. This minimum net capital level is determined based upon an involved calculation described in Rule 15c3-1 that is primarily based on each broker-dealer s aggregate debits , which primarily are a function of client margin balances at our broker-dealer subsidiaries. Since our aggregate debits may fluctuate significantly, our minimum net capital requirements may also fluctuate significantly from period to period. The holding company may make cash capital contributions to broker-dealer subsidiaries, if necessary, to meet net capital requirements.

On November 12, 2004, our broker-dealer subsidiary Ameritrade, Inc. was notified by the staff of the NASD and the staff of the SEC Division of Market Regulation (collectively the Staffs) that in their view Ameritrade, Inc. s net capital was below its minimum amount required under Exchange Act Rule 15c3-1. The asserted deficiency was based upon the Staffs concerns regarding a Federal Deposit Insurance Corporation (FDIC) insured deposit sweep program available to Ameritrade, Inc. s clients. Ameritrade, Inc. cured the asserted deficiency the next business day, November 15, 2004. We continue to discuss this matter with the Staffs. We are unable to predict the outcome of this matter. See Note 7 of the notes to condensed consolidated financial statements for further discussion of this matter.

Liquid Assets

We consider liquid assets an important measure of our liquidity and of our ability to fund corporate investing and financing activities. Liquid assets is considered a Non-GAAP financial measure as defined by SEC Regulation G. We define liquid assets as the sum of a) non broker-dealer cash and cash equivalents and b) regulatory net capital of our broker-dealer subsidiaries in excess of 5% of aggregate debit items. We include the excess regulatory net capital of our broker-dealer subsidiaries in liquid assets rather than simply including broker-dealer cash and cash equivalents, because regulatory net capital requirements may limit the amount of cash available for dividend from the broker-dealer subsidiaries to the holding company. Liquid assets should be considered as a supplemental measure of liquidity, rather than as a substitute for cash and cash equivalents. The following table sets forth a reconciliation of cash and cash equivalents to liquid assets for the periods indicated (in thousands):

Table of Contents

	June 25, 2004	September 26, 2003	Change
Cash and cash equivalents	$129,756	$ 248,623	$(118,867)
Less: Broker-dealer cash and cash equivalents	(94,706)	(55,634)	(39,072)
Non broker-dealer cash and cash equivalents	35,050	192,989	(157,939)
Plus: Excess broker-dealer regulatory net capital *		142,305	(142,305)
Liquid assets*	$ 35,050	$ 335,294	$(300,244)

---

* Includes the impact of a regulatory matter related to an FDIC-insured deposit sweep program as of June 25, 2004. Excluding the impact of the regulatory matter, excess broker-dealer regulatory net capital would be approximately $69.4 million and liquid assets would be approximately $104.5 million as of June 25, 2004. See Note 7 of the notes to condensed consolidated financial statements for further discussion of the regulatory matter.

The decrease in liquid assets from September 26, 2003 to June 25, 2004 is primarily due to cash used in investing and financing activities of $384.3 million (see Cash Flow below), the impact of the regulatory matter of $69.4 million and an increase in aggregate debit items that resulted in increased regulatory net capital required of $56.2 million, partially offset by net income of $215.2 million. The remaining $5.5 million of the change in liquid assets is due to non-cash expenses that are reflected in net income, changes in non broker-dealer working capital due to timing of income tax and other payments, and other miscellaneous changes in excess regulatory net capital.

Cash Flow

Cash provided by operating activities was $265.4 million for the first nine months of fiscal 2004, compared to $8.8 million for the first nine months of fiscal 2003. Cash flow activity in the first nine months of fiscal 2003 included substantial reductions in accounts payable and accrued liabilities assumed in the Datek merger, which were funded by cash acquired in the Datek merger.

Cash used in investing activities was $62.4 million for the first nine months of fiscal 2004, compared to cash provided by investing activities of $13.0 million for the first nine months of fiscal 2003. The cash used in investing activities in the first nine months of fiscal 2004 consisted primarily of $55.1 million paid in the acquisition of Bidwell & Company. The cash provided by investing activities in the first nine months of fiscal 2003 was due primarily to $23.2 million of proceeds from the sale/leaseback of our Kansas City data center facility. We expect to pay up to $17.5 million during Fall 2004 and up to $8.5 million early in calendar 2005 in connection with the closing of our planned acquisition of the online retail accounts of JB Oxford & Company.

Cash used in financing activities was $321.9 million for the first nine months of fiscal 2004, compared to cash provided by financing activities of $9.3 million for the first nine months of fiscal 2003. The financing activities in the first nine months of fiscal 2004 consisted primarily of $288.6 million of stock repurchases and the early redemption of the convertible subordinated notes for $46.8 million. We also borrowed and repaid $25.0 million on our revolving credit agreement and $17.5 million on Ameritrade Northwest, Inc. s (formerly Bidwell) secured credit facility to fund daily liquidity needs.

Loan Agreement

On December 15, 2003, we entered into a third amended and restated revolving credit agreement. The revolving credit agreement permits borrowings of up to $75 million through December 13, 2004, and is secured primarily by our stock in our subsidiaries and personal property. The interest rate on borrowings, determined on a monthly basis, is equal to the lesser of (i) the prime rate or (ii) one month LIBOR plus 2.0 percent. At June 25, 2004, the interest rate on the revolving credit agreement would have been 3.33 percent. We also pay a commitment fee of 0.25 percent of the unused borrowings through the maturity date. We had no outstanding indebtedness under the revolving credit agreement at June 25, 2004 and no outstanding indebtedness under the prior revolving credit agreement at September 26, 2003. The revolving credit agreement contains certain covenants and restrictions, including limitations on borrowings based on the amount of excess net capital at the Company s broker-dealer subsidiaries, requiring prior written consent of the revolving lenders for certain business combinations and investments, and prohibiting the payment of cash dividends to stockholders. We were in compliance with or obtained waivers for all covenants under the revolving credit agreements.

Prepaid Variable Forward Contract

During fiscal 2003, we entered into a series of prepaid variable forward contracts (the forward contracts) with a counterparty with a total notional amount of approximately $41.4 million on 7.9 million underlying Knight shares. The forward contracts each contain a zero-cost embedded collar on the value of the Knight shares, with a weighted average floor price of $5.13 per share and a weighted average cap price of $6.17 per share. At the inception of the forward contracts, we received cash of approximately $35.5 million, equal to approximately 86 percent of the notional amount. The forward contracts mature on various dates in fiscal years 2006 and 2007. At maturity, we may settle the forward contracts in shares of Knight or in cash, at our option. If the market price of the Knight stock at maturity is equal to or less than the floor price, the counterparty will be entitled to receive one share of Knight or its cash equivalent for each underlying share. If the market price of the Knight stock at maturity is greater than the cap price, the counterparty will be entitled to receive the number of shares of Knight or its cash equivalent equal to the ratio of the floor price plus the excess of the market price over the cap price, divided by the market price, for each underlying share. If the market price at maturity is greater than the floor price but less than or equal to the cap price, the counterparty will be entitled to receive the number of Knight shares or its cash equivalent equal to the ratio of the floor price divided by the market price for each underlying share. Regardless of whether the forward contract is settled in Knight shares or in cash, we intend to sell the underlying Knight shares at maturity.

We have designated the forward contracts as cash flow hedges of the forecasted future sales of 7.9 million Knight shares. The forward contracts are expected to be perfectly effective hedges against changes in the cash flows associated with the forecasted future sales outside the price ranges of the collars. Accordingly, all changes in the fair value of the embedded collars are recorded in other comprehensive income, net of income taxes. As of June 25, 2004 and September 26, 2003, the total fair value of the embedded collars was approximately $36.6 million and $46.7 million, respectively, and was included under the caption Prepaid variable forward derivative instrument on the condensed consolidated balance sheet.

The $35.5 million of cash received on the forward contracts is accounted for as an obligation on the consolidated balance sheet. We are accreting interest on the obligation to the notional maturity amount of $41.4 million over the terms of the forward contracts using effective interest rates with a weighted average of approximately 4.3 percent. Upon settlement of a forward contract, the fair value of the collar and the realized gain or loss on the Knight stock delivered to the counterparty or otherwise sold will be reclassified from other comprehensive income into earnings.

Stock Repurchase Program

On September 9, 2002, our Board of Directors authorized a program to repurchase up to 40 million shares of our Common Stock from time to time over a two-year period beginning September 19, 2002. On May 5, 2004, our Board of Directors extended the stock repurchase program through May 5, 2006. Under the stock repurchase program, as extended, we may repurchase, from time to time, up to 70 million shares of our Common Stock, a 30 million-share increase from the previous authorization. Through June 25, 2004, we have repurchased a total of approximately 39.2 million shares at a weighted average purchase price of $9.67 per share. During the first nine months of fiscal 2004, we repurchased approximately 22.6 million shares at a weighted average purchase price of $12.77 per share.

Off-Balance Sheet Arrangements

The Company does not have any obligations which meet the definition of an off-balance sheet arrangement and which have or are reasonably likely to have a material effect on our financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

FIN No. 46 In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (FIN No. 46). In December 2003, the FASB issued FASB Interpretation No. 46R, which served to clarify guidance in FIN No. 46. The FASB deferred the effective date for applying the provisions of FIN No. 46 for certain variable interest entities to periods ending after March 15, 2004. The implementation of FIN No. 46, as revised, had no impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and market prices. We have established policies, procedures and internal processes governing our management of market risks in the normal course of our business operations. We do not hold any market risk-sensitive instruments for trading purposes.

We seek to control the risks associated with our client activities by requiring clients to maintain margin collateral in compliance with regulatory and internal guidelines. We monitor required margin levels daily and, pursuant to such guidelines, require our clients to deposit additional collateral, or to reduce positions, when necessary. We seek to control risks associated with our securities lending and borrowing activities by requiring credit approvals for counterparties, by monitoring the market value of securities loaned and collateral values for securities borrowed on a daily basis and requiring additional cash as collateral for securities loaned or return of collateral for securities borrowed when necessary, and by participating in a risk-sharing program offered through a securities clearinghouse.

As a fundamental part of our brokerage business, we hold interest earning assets, mainly funds required to be segregated in compliance with federal regulations. These funds totaled $7.7 billion at June 25, 2004 and $7.9 billion at September 26, 2003. We invest these funds in repurchase agreements, fixed-rate U.S. Treasury securities and other qualified securities. Our interest earning assets are financed primarily by short-term interest bearing liabilities, totaling $10.1 billion at June 25, 2004 and $9.6 billion at September 26, 2003, in the form of client credit balances. We earn a net interest spread on the difference between amounts earned on client margin balances and amounts paid on client credit balances. Because we establish the rate paid on client credit balances and the rate charged on client margin balances, a substantial portion of our interest rate risk is under our direct management.

At June 25, 2004 and September 26, 2003, we had $0 and $46.3 million, respectively, of convertible subordinated notes outstanding, which bore interest at a fixed rate of 5.75 percent. We had no borrowings outstanding under our $75 million revolving credit agreement, which bears interest at a floating rate, as of June 25, 2004 and September 26, 2003. We hold two marketable equity securities, our investments in approximately 7.9 million shares of Knight and 75,700 shares of The Nasdaq Stock Market, Inc., which were recorded at fair value of $80.3 million ($49.6 million net of tax) at June 25, 2004 and have exposure to market price risk. The same securities were recorded at fair value of $90.6 million ($55.0 million net of tax) at September 26, 2003. The potential loss in fair value resulting from a hypothetical 10 percent adverse change in prices quoted by the stock exchanges was approximately $8.0 million at June 25, 2004. During fiscal 2003, we entered into a series of prepaid variable forward contracts with a total notional amount of approximately $41.4 million on 7.9 million underlying Knight shares. The forward contracts each contain an embedded collar on the value of the Knight shares, with a weighted average floor price of $5.13 per share and a weighted average cap price of $6.17 per share. We have designated the forward contracts as cash flow hedges of the forecasted future sales of 7.9 million Knight shares. As of June 25, 2004 and September 26, 2003, the fair value of the embedded collars was approximately $36.6 million and $46.7 million, respectively, and was included under the caption Prepaid variable forward derivative instrument on the condensed consolidated balance sheet. The forward contracts are expected to be perfectly effective hedges against changes in cash flows associated with changes in the value of Knight shares outside the price ranges of the collars.

At September 26, 2003, we had an equity index swap arrangement for the purpose of hedging our obligation under our deferred compensation plan for our CEO. Changes in the fair value of this instrument were offset by changes in our obligation to our CEO. Effective April 15, 2004, the CEO changed his investment election under the deferred compensation arrangement from an equity index to a group of fixed income securities. Accordingly, we terminated our equity index swap arrangement. As of June 25, 2004, the group of fixed income securities was earning interest at an annual rate of approximately 1.4 percent.

Our revenues and financial instruments are denominated in U.S. dollars, and we generally do not invest, except for hedging purposes, in derivative financial instruments or derivative commodity instruments.

Item 4. Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the Company s disclosure controls and procedures as of June 25, 2004. Based on that evaluation, and in consideration of the matter described below, management, including the Chief Executive Officer and Chief Financial Officer, has concluded that the Company s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in its periodic reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

On November 12, 2004, our broker-dealer subsidiary Ameritrade, Inc. was notified by the staff of the NASD and the staff of the SEC Division of Market Regulation (collectively the Staffs) that they believe that for regulatory purposes certain funds held in banks on behalf of clients are liabilities and assets of Ameritrade, Inc. rather than liabilities and assets only of the banks. The resulting assets have not been allowed for purposes of Ameritrade, Inc. s regulatory net capital calculation. Accordingly, in the Staffs view Ameritrade, Inc. s net capital was below its minimum amount required under Exchange Act Rule 15c3-1. Ameritrade, Inc. cured the asserted deficiency on November 15, 2004, the first business day following the notification. The asserted deficiency was based upon the Staffs concerns regarding a Federal Deposit Insurance Corporation (FDIC) insured deposit sweep program (the Program) available to Ameritrade, Inc. s clients wherein funds were deposited, through an intermediary agent, into FDIC-insured deposit accounts at banks (Program Banks). The Staffs view is that Ameritrade, Inc. did not for regulatory purposes effectively move client free credit balances to bank accounts established in client names at the Program Banks. Ameritrade, Inc. informed the Staffs that it believes that the free credit balances were effectively transferred to the Program Banks in accordance with well-established banking law, that the accounts held at the Program Banks were the obligations of the Program Banks to each client and not obligations of Ameritrade, Inc. and that the FDIC insurance passed through to each client in accordance with FDIC regulations. Accordingly, Ameritrade, Inc. believes that it has been in compliance with Rule 15c3-1.

Our independent registered public accounting firm has concluded that the controls in place relating to the Program were not properly designed to provide reasonable assurance that these funds were properly recorded and disclosed in the financial statements and assets were appropriately considered in regulatory net capital computations. On December 8, 2004, our independent registered public accounting firm notified the Audit Committee and management, that in their judgment, this is a material weakness in internal control over financial reporting.

The Company s management is reviewing and evaluating its internal control procedures and the design of those control procedures relating to the Program. Once this review and evaluation is complete, the Company intends to implement any changes required to remediate any identified deficiencies.

There have been no changes in the Company s internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

Litigation In October 2003, Keener, a pro se plaintiff, filed a putative class action against the Company, Knight Trading Group, Inc. and certain individuals in the United States District Court for the District of Nebraska. The plaintiff asserts his action on behalf of persons who became clients of the Company during the period from March 29, 1995 through September 30, 2003. As it pertains to the Company, the principal allegations of the complaint are that the Company had an indirect and direct equity interest in Knight, to which it directed most of its orders for execution; that the Company failed to accurately disclose the nature of its relationship with Knight and the consideration it received from Knight for directing order flow to Knight; and that clients of Ameritrade did not receive best execution of their orders from Knight and the Company. The plaintiff claims that the Company s conduct violated certain provisions of the federal securities laws, including Sections 11Ac, 10(b) and 3(b) of the Securities Exchange Act of 1934 (the Exchange Act), and SEC rules promulgated thereunder. Plaintiff further claims the individual defendants, including a present director and a former director of the Company, are liable under Section 20(a) of the Exchange Act as controlling persons for the claimed wrongs attributed to the Company and Knight. In his prayer for relief, plaintiff requests monetary damages and/or rescissionary relief in the amount of $4.5 billion against all defendants, jointly and severally. In January 2004, the Company, Knight and the individual defendants filed motions to dismiss the complaint and to deny class certification or strike the class action allegations. In July 2004 the District Court granted the Company defendants motion to deny class certification and to stay the action pending arbitration. The District Court ruled that plaintiff must amend the complaint to delete all references to class members. The District Court ruled that if plaintiff files an amended complaint, the Company defendants may reassert a motion to compel arbitration and, if the motion is filed, the claims against the Company defendants will be stayed pending arbitration. The District Court also granted the Knight defendants motion to dismiss and to strike to the extent of denying certification of a plaintiff class. The District Court ruled that plaintiff must file an amended complaint that deletes all references to class members and that cures all additional defects. The Company and the defendant directors of the Company believe they have adequate legal defenses and they intend to continue to vigorously defend against this action.

The nature of the Company s business subjects it to lawsuits, arbitrations, claims and other legal proceedings. We cannot predict with certainty the outcome of pending legal proceedings. A substantial adverse judgment or other resolution regarding the proceedings could have a material adverse effect on the Company s financial condition, results of operations and cash flows. However, in the opinion of management, after consultation with legal counsel, the Company has adequate legal defenses with respect to the legal proceedings to which it is a defendant or respondent and the outcome of these pending proceedings is not likely to have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
March 27, 2004 April 30, 2004	2,050,000	$ 14.20	2,050,000	8,282,338
May 1, 2004 May 28, 2004	5,500,000	$ 11.53	5,500,000	32,782,338
May 29, 2004 June 25, 2004	2,000,000	$ 11.94	2,000,000	30,782,338
Total Three months ended June 25, 2004	9,550,000	$ 12.19	9,550,000	30,782,338

27

The Company s Common Stock repurchase program was announced on September 9, 2002. The Company s Board of Directors authorized the Company to repurchase up to 40 million shares over a two-year period expiring September 9, 2004. On May 5, 2004, the Company s Board of Directors extended the stock repurchase program through May 5, 2006. Under the stock repurchase program, as extended, the Company may repurchase, from time to time, up to 70 million shares of Common Stock, a 30 million-share increase from the previous authorization. The September 9, 2002 program, as extended, is the only program currently in effect and there have been no programs that have expired during the period covered by this report. The Company did not make any repurchases other than through the publicly announced program during the quarter covered by this report.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

3.1 Restated Certificate of Incorporation of Ameritrade Holding Corporation (incorporated by reference to Exhibit 3.1 of the Company s Form 8-A filed on September 5, 2002)

3.2 Amended and Restated By-Laws of Ameritrade Holding Corporation (incorporated by reference to Exhibit 3.2 of the Company s Form 10-K filed on November 7, 2003)

10.1 Executive Employment Agreement, dated as of June 7, 2004, between Kenneth Feldman and Ameritrade Holding Corporation (incorporated by reference to Exhibit 10.1 of the Company s Form 10-Q filed on August 3, 2004)

15.1 Awareness Letter of Independent Registered Public Accounting Firm

31.1 Certification of Joseph H. Moglia, Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of John R. MacDonald, Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

On April 20, 2004, a Form 8-K was furnished under Items 7 and 12.

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: December 9, 2004

Ameritrade Holding Corporation
(Registrant)

by: /s/ Joseph H. Moglia

Joseph H. Moglia
Chief Executive Officer
(Principal Executive Officer)

by: /s/ John R. MacDonald

John R. MacDonald
Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

29