TD AMERITRADE HOLDING CORP
Form 10-K
December 07, 2006

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 29, 2006

o **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

TD 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 and zip code)

(402) 331-7856
(Registrant s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock $0.01 par value	The NASDAQ Stock Market LLC

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

Title of Class
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ   No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o   No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) under the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer þ   Accelerated filer o   Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o   No þ

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $4.9 billion computed by reference to the closing sale price of the stock on the Nasdaq Stock Market on March 31, 2006, the last trading day of the registrant s most recently completed second fiscal quarter.

The number of shares of common stock outstanding as of November 30, 2006 was 600,538,184 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Definitive Proxy Statement relating to the registrant s 2007 Annual Meeting of Stockholders to be filed hereafter (incorporated into Part III hereof).

TD AMERITRADE HOLDING CORPORATION

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Unless otherwise indicated, references to we , us or Company mean TD AMERITRADE Holding Corporation and its subsidiaries, and references to fiscal mean the Company s fiscal year ended the last Friday of September.

PART I

Item 1. *Business*

We are a leading provider of securities brokerage services, with retail brokerage representing the vast majority of our business. The Company was established in 1971 as a local investment banking firm. The Company began operations as a retail discount securities brokerage firm in 1975.

Operations

We are a leading provider of securities brokerage services and technology-based financial services to retail investors and business partners, predominantly through the Internet, a national branch network and relationships with one of the largest networks of independent registered investment advisors. Our services appeal to a broad market of independent, value conscious retail investors, traders, financial planners and institutions. We use our low-cost platform to offer brokerage services to retail investors and institutions under a low-cost commission structure that is generally simpler than that of most of our major competitors.

We have been an innovator in electronic brokerage services since entering the retail securities brokerage business in 1975. We believe that we were the first brokerage firm to offer the following products and services to retail clients: touch-tone trading; trading over the Internet; unlimited, streaming, free real-time quotes; extended trading hours; direct access; and commitment on the speed of execution. Since initiating online trading, we have substantially increased our number of brokerage accounts, average daily trading volume and total assets in client accounts. We have also built, and continue to invest in, a proprietary trade processing platform that is both cost efficient and highly scalable, significantly lowering our operating costs per trade. In addition, we have made significant and effective investments in building the TD AMERITRADE brand.

Strategy

We intend to capitalize on the growth and consolidation of the retail brokerage industry in the United States and leverage our low-cost infrastructure to grow market share and profitability. Our long-term growth strategy includes increasing our focus beyond active traders to obtain a greater market share from long-term investors and registered investment advisors. We strive to enhance the client experience while delivering greater value to stockholders. The key elements of our strategy are as follows:

Focus on retail brokerage services. We plan to focus on attracting active traders, long-term investors and registered investment advisors to our retail brokerage services. This focused strategy is designed to allow us to maintain our low operating cost structure and still offer our clients outstanding products and services.

Leverage our infrastructure to add incremental revenue. Through our proprietary technology, we are able to provide a very robust online experience for investors and traders. Our low-cost, scalable platform provides speed, reliability and quality trade execution services for clients. The scalable capacity of our trading system allows us to add a significant number of transactions while incurring minimal additional fixed costs.

Continue to be a low-cost provider of quality services. Our operating expense per trade is among the lowest of any of our publicly traded competitors. We intend to continue to lower our operating costs per trade by creating economies of scale, utilizing our single-platform proprietary system, continuing to automate processes and locating much of our operations in low-cost geographical areas. This low fixed-cost infrastructure provides us with significant financial leverage.

Continue to offer innovative technologies and service enhancements to our clients. We have been an innovator in our industry over our 30-year history. We continually strive to provide our clients with choice and the ability to customize their trading experience. We provide greater choice by tailoring our features and functionality to meet the specific needs of investors.

Continue to aggressively pursue growth through acquisitions. When evaluating potential acquisitions, we look for transactions that will give us operational leverage, technological leverage, increased market share or other strategic opportunities. On January 24, 2006, we completed our acquisition of the U.S. brokerage business of TD Waterhouse Group, Inc. (TD Waterhouse). The transaction combined highly complementary franchises to create a retail broker with the scale, breadth and financial strength to be a leading player in the increasingly competitive and consolidating investor services industry. The acquisition of TD Waterhouse provided us with a national network of over 100 branches, as well as relationships with one of the largest networks of independent registered investment advisors. We also now provide our clients with an FDIC-insured money market sweep alternative for their cash through an arrangement with TD Bank USA, N.A. See Acquisition of TD Waterhouse below for further information about the acquisition of TD Waterhouse.

During fiscal 2004, we acquired Bidwell & Company and purchased the retail client accounts of BrokerageAmerica, LLC and Investex Securities Group, Inc. In fiscal 2005, we purchased the retail client accounts of JB Oxford & Company. These acquisitions followed the merger with Datek Online Holdings Corp. (Datek) in fiscal 2002 and the purchase of National Discount Brokers Corporation (NDB) in fiscal 2001. We intend to continue to be an acquirer by searching for other firms that fit one or more of our criteria.

Leverage the TD AMERITRADE brand. We believe that we have a superior brand identity and offering. Our advertising has established TD AMERITRADE as a significant brand in the retail brokerage market.

Acquisition of TD Waterhouse

On January 24, 2006, we completed the acquisition of TD Waterhouse, a Delaware corporation, pursuant to an Agreement of Sale and Purchase, dated June 22, 2005, as amended (the Purchase Agreement), with The Toronto-Dominion Bank (TD). We purchased from TD (the Share Purchase) all of the capital stock of TD Waterhouse in exchange for 196,300,000 shares of Company common stock, and $20,000 in cash. The shares of common stock issued to TD in the Share Purchase represented approximately 32.5 percent of the outstanding shares of the Company after giving effect to the transaction. Upon the completion of the transaction, we changed our name to TD AMERITRADE Holding Corporation and the authorized shares of common stock of the Company were increased from 650 million to one billion. Our consolidated financial statements include the results of operations for TD Waterhouse beginning January 25, 2006. In addition, on January 24, 2006, we completed the sale of Ameritrade Canada, Inc. to TD for $60 million in cash. We have agreed not to compete or own any portion of a business that competes with TD in Canada (including in the retail securities brokerage business) after the consummation of the Share Purchase. The purchase price for the acquisition of TD Waterhouse and the sale price for the sale of Ameritrade Canada were subject to cash adjustments based on the closing date balance sheets of the Company, TD Waterhouse and Ameritrade Canada. On May 5, 2006, we received approximately $45.9 million from TD for the settlement of cash adjustments related to the purchase of TD Waterhouse and the sale of Ameritrade Canada.

Pursuant to the Purchase Agreement, prior to the consummation of the Share Purchase, TD Waterhouse conducted a reorganization in which it transferred its Canadian retail securities brokerage business and TD Bank USA, N.A. (formerly TD Waterhouse Bank, N.A.) to TD such that, at the time of consummation of the Share Purchase, TD Waterhouse retained only its United States retail securities brokerage business. TD Waterhouse also distributed to TD excess capital of TD Waterhouse above certain thresholds prior to the consummation of the Share Purchase. As contemplated in the Purchase Agreement, on January 24, 2006, we commenced payment of a special cash dividend of $6.00 per share in respect of the shares of our common stock outstanding prior to the consummation of the Share Purchase. The total amount of the dividend was approximately $2.4 billion.

In connection with the Purchase Agreement, TD was given rights to have its shares of common stock of the Company registered for resale and TD licensed us the right to use the "TD" name in connection with the operation of our business. The parties also entered into agreements regarding bank sweep accounts and mutual funds.

In connection with the Purchase Agreement, the Company, TD and J. Joe Ricketts, our Chairman and Founder, and certain of his affiliates also entered into a Stockholders Agreement, as amended (the Stockholders Agreement). The Stockholders Agreement sets forth certain governance arrangements and contains various provisions relating to stock ownership, voting, election of directors and other matters. Our certificate of incorporation and bylaws were amended and restated as of January 24, 2006, to give effect to and facilitate the provisions contained in the Stockholders Agreement.

At the time of the closing of the TD Waterhouse acquisition, we expected to realize approximately $678 million of annualized pre-tax synergies from the acquisition of TD Waterhouse within 18 months of the closing, consisting of $300 million in revenue opportunities primarily related to our new banking relationship with TD and $378 million in cost savings related to the elimination of duplicate expenditures. As of September 29, 2006, we estimate that we have realized annualized pre-tax revenue opportunities of over $300 million and annualized pre-tax cost savings of approximately $143 million.

Client Offerings

We deliver products and services aimed at providing a comprehensive, personalized experience for active traders, long-term investors and registered investment advisors. Our client offerings include:

TD AMERITRADE® is our core offering for self-directed retail investors. We offer sophisticated tools and services, including Streamer Suite™, TD AMERITRADE command center, SnapTicket™, Trade Triggers™, QuoteScope™, Advanced Analyzer™ and Market Motion Detector. We offer Ameritrade Apex™ for clients who place an average of five trades per month over a three-month period or have a $100,000 total account value. Apex clients receive free access to services that are normally available on a subscription basis and access to exclusive services and content.

TD AMERITRADE Institutional is a leading provider of comprehensive brokerage and custody services to more than 4,000 independent Registered Investment Advisors (RIAs) and their clients. Our advanced technology platform coupled with personal support from our dedicated service teams, allows investment advisors to run their practices more effectively and efficiently, while optimizing time with clients. Additionally, TD AMERITRADE Institutional provides a robust offering of products, programs, and services. These services are all designed to help advisors build their business, and at the same time help their clients reach their financial goals.

TD AMERITRADE Izone serves self-directed traders who are willing to forgo traditional support and service in favor of a purely electronic brokerage experience and lower commissions.

Amerivest™ is an online advisory service introduced in October 2004 that tailors a portfolio of Exchange Traded Funds (ETFs) to help long-term investors pursue their financial goals. Our subsidiary, Amerivest Investment Management, LLC, recommends an investment portfolio based on a proprietary automated five-step process centered on an investor s goals and risk tolerance.

Ameritrade Corporate Services provides self-directed brokerage services to employees and executives of corporations, either directly in partnership with the corporation or through joint marketing relationships with third-party administrators, such as 401(k) providers and employee benefit consultants.

Products and Services

We strive to provide the best value of retail brokerage services to our clients. The products available to our clients include:

Common and preferred stock. Clients can purchase common and preferred stocks and American Depository Receipts traded on any United States exchange or quotation system.

Exchange Traded Funds. ETFs are baskets of securities (stocks or bonds) that track recognized indexes. They are similar to mutual funds, except they trade the same way that a stock trades, on a stock exchange. We have launched an online resource dedicated to ETFs, offering tools, education and information for active and long-term investors seeking alternatives for pursuing their investment strategies.

Option trades. We offer a full range of option trades, including spreads, straddles and strangles. All option trades, including complex trades, are accessible on our Web site.

Mutual funds. Clients can compare and select from a portfolio of over 13,000 mutual funds from leading fund families, including a broad range of no transaction fee (NTF) funds. Clients can also easily exchange funds within the same mutual fund family.

Fixed income. We offer our clients access to a variety of treasury, corporate, government and municipal bonds as well as mortgage-backed securities and certificates of deposit.

Margin lending. We extend credit to clients who maintain margin accounts.

Cash management services. Through third-party banking relationships, we offer money market deposit accounts and money market mutual funds to our clients as cash sweep alternatives.

We provide our clients with an array of channels to access our products and services. These include Internet, our network of retail branches, wireless telephone or Personal Digital Assistant, Interactive Voice Response and registered representatives via telephone.

Client Service and Support

We endeavor to optimize our highly rated client service by:

Ensuring prompt response to client service calls through adequate staffing with properly trained and motivated personnel in our client service departments, many of whom have a Series 7 license;

Tailoring client service to the particular expectations of the clients of each of our client segments; and

Expanding our use of technology to provide automated responses to the most typical inquiries generated in the course of clients securities trading and related activities.

We provide client service and support through a variety of access points, such as:

Web sites. Web sites provide basic information on how to use our services and an in-depth education center that includes a guide to online investing and an encyclopedia of finance.

Branches. We offer a nationwide network of over 100 retail branches, located primarily in large metropolitan areas.

E-mail. Clients are encouraged to use e-mail to contact our client service representatives. Our operating standards require a response within 24 hours of receipt of the e-mail; however, we strive to respond within four hours of the original message.

Client service representatives. For clients who choose to call or whose inquiries necessitate calling one of our client service representatives, we provide a toll-free number that connects to advanced call handling systems. These systems provide automated answering and directing of calls to the proper department. Our systems also allow linkage between caller identification and the client database to give the client service representative immediate access to the client s account data at the time the call is received. Client service representatives are available 24 hours a day, seven days a week (excluding market holidays).

We strive to provide the best client service in the industry as measured by: (1) speed of response time on telephone calls; (2) turnaround time on responding to client inquiries; and (3) client satisfaction with the account relationship.

Technology and Information Systems

Technology is a core function for our business and is critical to our goal of providing the best execution at the best value to our clients. Our operations require reliable, scalable systems that can handle complex financial transactions for our clients with speed and accuracy. We maintain sophisticated and proprietary technology that automates traditionally labor-intensive securities transactions. Our ability to effectively leverage and adopt new technology to improve our services is a key component of our success.

We continue to make investments in technology and information systems. Since 1999, we have spent a significant amount of resources to increase capacity and improve speed and reliability. To provide for system continuity during potential power outages, we also have equipped our data centers with uninterruptible power supply units, as well as back-up generators.

Our current capacity for trades is approximately 600,000 trades per day. During fiscal 2006, our clients averaged approximately 217,000 trades per day. Our highest average client trades per day for any single month occurred in May 2006, when clients averaged approximately 280,000 trades per day. The highest number of trades our clients have made in any single day is 349,000. Because of the scalability of our system, we believe that we would be able to increase capacity to approximately one million trades per day at an estimated technology cost of $5 million.

Advertising and Marketing

We intend to continue to grow and increase our market share by advertising through online avenues, television, print, direct mail and our own Web sites. We invest heavily in advertising programs designed to bring greater brand recognition to our services. We intend to continue to aggressively advertise our services. From time to time, we may choose to increase our advertising to target specific groups of investors or to decrease advertising in response to market conditions.

Advertising for retail clients is generally conducted through Web sites, financial news networks and other television and cable networks. We also place print advertisements in a broad range of business publications and use direct mail advertising. Advertising for institutional clients is significantly less than for retail clients and is generally conducted through highly targeted media.

To monitor the success of our various marketing efforts, we have installed a data gathering and tracking system. This system enables us to determine the type of advertising that best appeals to our target market so that we can invest future dollars in these programs and obtain a greater yield from our marketing dollars. Additionally, through the use of our database tools, we are working to more efficiently determine the needs of our various client segments and tailor our services to their individual needs. We intend to utilize this system to strengthen relationships with our clients and support marketing campaigns to attract new clients. All of our methods and uses of client information are disclosed in our privacy statement.

All of our brokerage-related communications with the public are regulated by the National Association of Securities Dealers, Inc. (NASD) or New York Stock Exchange, Inc. (NYSE).

Clearing Operations

Our subsidiaries, Ameritrade, Inc. and National Investor Services Corp. (NISC), provide clearing and execution services to our introducing broker-dealer subsidiary, TD AMERITRADE, Inc. Clearing services include the confirmation, receipt, settlement, delivery and record-keeping functions involved in the processing of securities transactions. Our clearing broker-dealer subsidiaries provide the following back office functions:

- Maintaining client accounts;
- Extending credit in a margin account to the client;
- Settling securities transactions with clearing houses such as The Depository Trust & Clearing Corporation and The Options Clearing Corporation;

Settling commissions and transaction fees;

Preparing client trade confirmations and statements;

Performing designated cashiering functions, including the delivery and receipt of funds and securities to or from the client;

Possession, control and safeguarding funds and securities in client accounts;

Transmitting tax accounting information to the client and to the applicable tax authority; and

Forwarding prospectuses, proxies and other shareholder information to clients.

We make margin loans to clients collateralized by client securities. Our margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System (Federal Reserve), the margin requirements of the NASD and our own internal policies. By permitting clients to purchase on margin, we take the risk that a market decline could reduce the value of the collateral securing our loan to an amount that is less than the clients indebtedness to us. Under applicable securities laws and regulations, we are obligated to require the client to maintain net equity in the account equal to at least 25 percent of the value of the securities in the account. Our current internal requirement, however, is that the client s net equity not be allowed to fall below 30 percent of the value of the securities in the account. If it does fall below 30 percent, we require the client to increase the account s net equity to 35 percent of the value of the securities in the account. These requirements can be, and often are, raised as we deem necessary for certain accounts, groups of accounts, individual securities or groups of securities.

Competition

We believe that the principal determinants of success in the retail brokerage market are brand recognition, size of client base and client assets, client trading activity, efficiency of operations, technology infrastructure and access to financial resources. We also believe that the principal factors considered by clients in choosing a broker are price, client service, quality of trade execution, delivery platform capabilities, convenience and ease of use, breadth of services, innovation and overall value. Based on our experience, focus group research and the success we have enjoyed to date, we believe that we presently compete successfully in each of these categories.

The market for brokerage services, particularly electronic brokerage services, continues to evolve and is intensely competitive. We have seen intense competition during the past five years and expect this competitive environment to continue. We encounter direct competition from numerous other brokerage firms, many of which provide online brokerage services. These competitors include such brokerage firms as Charles Schwab & Co., Inc., E*TRADE Financial Corporation, Fidelity Investments and Scottrade, Inc. We also encounter competition from established full-commission brokerage firms including such full service brokerage firms as Merrill Lynch and Smith Barney as well as financial institutions, mutual fund sponsors and other organizations, some of which provide online brokerage services.

Regulation

The securities industry is subject to extensive regulation under federal and state law. In general, broker-dealers are required to register with the SEC and to be members of the NASD or the NYSE. Our broker-dealer subsidiaries are subject to the requirements of the Securities Exchange Act of 1934 (the Exchange Act) and the rules promulgated thereunder relating to broker-dealers. These regulations establish, among other things, minimum net capital requirements for our broker-dealer subsidiaries. We are also subject to regulation under various state laws in all 50 states and the District of Columbia, including registration requirements.

In their capacity as securities clearing firms, Ameritrade, Inc. and NISC are members of The Depository Trust & Clearing Corporation and The Options Clearing Corporation, each of which is registered as a clearing agency with the SEC. As members of these clearing agencies, Ameritrade, Inc. and NISC are required to comply with the rules of such clearing agencies, including rules relating to possession and control of client funds and securities, margin lending and execution and settlement of transactions.

Margin lending activities are subject to limitations imposed by regulations of the Federal Reserve and the NASD. In general, these regulations provide that in the event of a significant decline in the value of securities collateralizing a margin account, we are required to obtain additional collateral from the borrower.

Intellectual Property Rights

Our success and ability to compete are dependent to a significant degree on our intellectual property, which includes our proprietary technology, trade secrets and client base. We rely on numerous methods of intellectual property protection to protect our intellectual property, including copyright, trade secret, trademark, domain name, patent and contract law and have utilized the various methods available to us, including registrations with the United States Patent and Trademark office for various properties, as well as entry into written licenses and other technology agreements with third parties. The source and object code for our proprietary software is also protected using applicable methods of intellectual property protection and general protections afforded to confidential information. In addition, it is our policy to enter into confidentiality and intellectual property ownership agreements with our associates and confidentiality and noncompetition agreements with our independent contractors and business partners, and to control access to and distribution of our intellectual property.

Associates

As of September 29, 2006, we employed 3,947 full-time equivalent employees. The number of employees has increased from 2,052 full-time equivalent employees as of the end of fiscal 2005, primarily due to the acquisition of TD Waterhouse. None of our employees is covered under a collective bargaining agreement. We believe that our relations with our employees are good.

Financial Information about Segments and Geographic Areas

See Note 16 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for financial information about the Company s segments and geographic areas.

Internet Address

We maintain a Web site where additional information concerning our business can be found. The address of that Web site is www.amtd.com. We make available free of charge on our Web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.

Item 1A. ***Risk Factors***

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition or future results of operations. Although the risks described below are those that management believes are the most significant, these are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently do not deem to be material also may materially affect our business, financial condition or future results of operations.

Risk Factors Relating to Our Business Operations

Stock market volatility and other securities industry risks could adversely affect our business.

Substantially all of our revenues are derived from our securities brokerage business. Like other securities brokerage businesses, we are directly affected by economic and political conditions, broad trends in business and finance and changes in volume and price levels of securities transactions. For example, events such as the terrorist attacks in the United States on September 11, 2001, the invasion of Iraq in 2003 and other events have resulted in substantial market volatility and reductions in trading volume and net revenues. In addition, any general economic downturn would adversely affect trading volumes and net revenues. Severe market fluctuations or weak economic conditions could reduce our trading volume and net revenues and adversely affect our profitability.

We have exposure to interest rate risk.

As a fundamental part of our brokerage business, we invest in interest-earning assets and are obligated on interest-bearing liabilities. In addition, we earn fees on our money market deposit account (MMDA) sweep arrangement with TD Bank USA, which are based on the actual net yield earned at TD Bank USA. Changes in interest rates could affect the interest earned on assets differently than interest paid on liabilities. A rising interest rate environment generally results in our earning a larger net interest spread. Conversely, a falling interest rate environment generally results in our earning a smaller net interest spread.

We have exposure to liquidity risk.

Substantially all of our interest-earning assets are readily convertible to cash or subject to immediate repayment by our clients and broker-dealer counterparties. Our liquidity needs to support interest-earning assets are primarily met by client credit balances or financing created from our securities lending activities. A reduction of funds available from client credit balances or securities lending may require us to seek other potentially more expensive forms of financing, such as borrowings on our uncommitted lines of credit. Because our broker-dealer lines of credit are uncommitted, there can be no assurance that such financing would be available.

We are exposed to credit risk with clients and counterparties.

We make margin loans to clients collateralized by client securities and periodically borrow and lend securities to cover trades. A significant portion of our net revenues is derived from interest on margin loans. By permitting clients to purchase securities on margin, we are subject to risks inherent in extending credit, especially during periods of rapidly declining markets in which the value of the collateral held by us could fall below the amount of a client s indebtedness. To the extent that these margin loans exceed client cash balances maintained with us, we must obtain financing from third parties. We may not be able to obtain this financing on favorable terms or in sufficient amounts. In addition, in accordance with regulatory guidelines, we collateralize borrowings of securities by depositing cash or securities with lenders. Sharp changes in market values of substantial amounts of securities and the failure by parties to the borrowing transactions to honor their commitments could have a material adverse effect on our revenues and profitability.

Our clearing operations expose us to liability for errors in clearing functions.

Our broker-dealer subsidiaries, Ameritrade, Inc. and NISC, provide clearing and execution services to our introducing broker-dealer subsidiary. Clearing and execution services include the confirmation, receipt, settlement and delivery functions involved in securities transactions. Clearing brokers also assume direct responsibility for the possession and control of client securities and other assets and the clearance of client securities transactions. Self-clearing securities firms are subject to substantially more regulatory control and examination than brokers that rely on others to perform those functions. Errors in performing clearing functions, including clerical and other errors related to the handling of funds and securities held by us on behalf of clients, could lead to civil penalties imposed by applicable authorities as well as losses and liability in related lawsuits brought by clients and others.

Changes in payments for routing our clients orders could adversely affect our business.

We have arrangements with several execution agents to receive cash payments in exchange for routing trade orders to these firms for execution. Competition between execution agents and the implementation of order handling rules and decimalization of stock prices have made it less profitable for execution agents to offer order flow payments to broker-dealers. On a per trade basis, our payment for order flow revenue has decreased significantly over the past several years. These payments could continue to decrease on a per trade basis, which could have an adverse effect on our revenues and profitability. The SEC could take action to prohibit payment for order flow, which could have an adverse effect on our revenues and profitability.

Systems failures, delays and capacity constraints could harm our business.

We receive and process trade orders through a variety of electronic channels, including the Internet, wireless web, personal digital assistants and our interactive voice response system. These methods of trading are heavily dependent on the integrity of the electronic systems supporting them. Our systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, computer viruses, distributed denial of service (DDOS) attacks, spurious spam attacks, intentional acts of vandalism and similar events. Though all of our core computer systems and applications are fully redundant and distributed over two sites, it could take several hours or more to restore full functionality in the event of an unforeseen disaster. Extraordinary trading volumes could cause our computer systems to operate at an unacceptably low speed or even fail. Extraordinary Internet traffic caused by DDOS or spam attacks could cause our Web site to be unavailable or slow to respond. While we have invested significant amounts to upgrade the reliability and scalability of our systems and added hardware to address extraordinary Internet traffic, there can be no assurance that our systems will be sufficient to handle such extraordinary circumstances. We may not be able to project accurately the rate, timing or cost of any increases in our business, or to expand and upgrade our systems and infrastructure to accommodate any increases in a timely manner. Systems failures and delays could occur and could cause, among other things, unanticipated disruptions in service to our clients, slower system response time resulting in transactions not being processed as quickly as our clients desire, decreased levels of client service and client satisfaction, and harm to our reputation. If any of these events were to occur, we could suffer:

a loss of clients or a reduction in the growth of our client base;

increased operating expenses;

financial losses;

additional litigation or other client claims; and

regulatory sanctions or additional regulatory burdens.

Our networks and client information could be vulnerable to security risks.

The secure transmission of confidential information over public networks is a critical element of our operations. Our networks could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We, along with the online brokerage industry in general, have experienced increased losses during fiscal 2006 related to clients login and password information being compromised while using public computers. Persons who circumvent security measures could wrongfully use our confidential information or our clients confidential information or cause interruptions or malfunctions in our operations. We could be required to expend significant additional resources to protect against the threat of security breaches or to alleviate problems caused by any breaches. We may not be able to implement security measures that will protect against all security risks. Because we provide a security guarantee under which we reimburse clients for losses resulting from unauthorized activity in their accounts, significant unauthorized activity could have a material adverse affect on our results of operations.

The success of our business will depend on continued development and maintenance of the Internet infrastructure.

The Internet has experienced, and is expected to continue to experience, significant growth in the number of users and amount of traffic. Our success will depend upon the ability of third parties to provide a reliable Internet infrastructure with the speed, data capacity, security and hardware necessary for reliable Internet access and services. To the extent that the Internet continues to experience increased numbers of users, increased frequency of use or increased bandwidth requirements, the Internet infrastructure may not be able to support the demands placed on it and the performance or reliability of the Internet could suffer.

Substantial competition could reduce our market share and harm our financial performance.

The market for electronic brokerage services is continually evolving and intensely competitive. There has been substantial price competition, including various free trade offers, in the industry recently. We expect the competitive environment to continue in the future. We face direct competition from numerous retail brokerage firms, including Charles Schwab & Co., Inc., E*TRADE Financial Corporation, Fidelity Investments and Scottrade, Inc. We also encounter competition from the broker-dealer affiliates of established full-commission brokerage firms as well as from financial institutions, mutual fund sponsors and other organizations, some of which provide online brokerage services. Some of our competitors have greater financial, technical, marketing and other resources, offer a wider range of services and financial products, and have greater name recognition and a more extensive client base than we do. We believe that the general financial success of companies within the retail securities industry will continue to attract new competitors to the industry, such as banks, software development companies, insurance companies, providers of online financial information and others. These companies may provide a more comprehensive suite of services than we do. Increased competition, including pricing pressure, could have a material adverse effect on our results of operations and financial condition.

We will need to introduce new products and services to remain competitive.

Our future success depends in part on our ability to develop and enhance our products and services. There are significant technical and financial risks in the development of new or enhanced products and services, including the risk that we might be unable to effectively use new technologies or adapt our services to emerging industry standards, or develop, introduce and market enhanced or new products and services. In addition, the adoption of new Internet, networking or telecommunications technologies or other technological changes could require us to incur substantial expenditures to modify or adapt our services or infrastructure.

Risk Factors Relating to the Regulatory Environment

Failure to comply with net capital requirements could adversely affect our business.

The SEC, NASD and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers. Net capital is a measure, defined by the SEC, of a broker-dealer s readily available liquid assets, reduced by its total liabilities other than approved subordinated debt. All of our broker-dealer subsidiaries are required to comply with net capital requirements. If we fail to maintain the required net capital, the SEC could suspend or revoke our registration, or the NASD could expel us from membership, which could ultimately lead to our liquidation, or they could impose censures, fines or other sanctions. If the net capital rules are changed or expanded, or if there is an unusually large charge against net capital, then operations that require the intensive use of capital would be limited. A large operating loss or charge against net capital could adversely affect our ability to maintain or expand our business.

Regulatory and legal uncertainties could harm our business.

The securities industry is subject to extensive regulation and broker-dealers are subject to regulations covering all aspects of the securities business. The SEC, NASD and other self-regulatory organizations and state and foreign regulators can, among other things, censure, fine, issue cease-and-desist orders to, suspend or expel a broker-dealer or any of its officers or employees. While we neither actively solicit new accounts nor have established offices outside the United States, our websites are accessible world-wide over the Internet and we currently have account holders located outside the United States. These accounts make up approximately 1.5 percent of our accounts and are spread across many jurisdictions. Any adverse action by foreign regulators with respect to regulatory compliance by us in foreign jurisdictions could adversely affect our revenues from clients in such country or region.

Various regulatory and enforcement agencies have been reviewing mutual fund trading, regulatory reporting obligations, best execution practices, client privacy, system security and safeguarding practices and advertising claims as they relate to the brokerage industry. These reviews could result in enforcement actions or new regulations, which could adversely affect our operations.

In addition, we use the Internet as a major distribution channel to provide services to our clients. A number of regulatory agencies have adopted regulations regarding client privacy, system security and safeguarding practices and the use of client information by service providers. Additional laws and regulations relating to the Internet and safeguarding practices could be adopted in the future, including laws related to identity theft and regulations regarding the pricing, taxation, content and quality of products and services delivered over the Internet. Complying with these laws and regulations is expensive and time consuming and could limit our ability to use the Internet as a distribution channel.

Failure to maintain adequate internal controls could adversely affect our business.

We are subject to internal control requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC and the Public Company Accounting Oversight Board. These laws, rules and regulations continue to evolve and could become increasingly stringent in the future. We have undertaken actions to enhance our ability to comply with the requirements of the Sarbanes-Oxley Act of 2002, including, but not limited to, the increased allocation of internal audit department resources, documentation of existing controls and implementation of new controls or modification of existing controls as deemed appropriate. Control deficiencies have been identified from time to time, and we have undertaken actions to remediate them.

We continue to devote substantial time and resources to the documentation and testing of our controls, and to planning for and implementation of remedial efforts in those instances where remediation is indicated. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we could be subject to regulatory actions, civil or criminal penalties or shareholder litigation. In addition, failure to maintain adequate internal controls could result in financial statements that do not accurately reflect our financial condition, results of operations and cash flows.

Risk Factors Relating to Strategic Acquisitions and the Integration of Acquired Operations

Acquisitions involve risks that could adversely affect our business.

We intend to pursue strategic acquisitions of businesses and technologies. Acquisitions may entail numerous risks, including:

- difficulties in the integration of acquired operations, services and products;
- failure to achieve expected synergies;
- diversion of management s attention from other business concerns;
- assumption of unknown material liabilities of acquired companies;
- amortization of acquired intangible assets, which could reduce future reported earnings;
- potential loss of clients or key employees of acquired companies; and
- dilution to existing stockholders.

As part of our growth strategy, we regularly consider, and from time to time engage in, discussions and negotiations regarding strategic transactions such as acquisitions, mergers and combinations within our industry. The purchase price for possible acquisitions could be paid in cash, through the issuance of common stock or other of our securities, borrowings or a combination of these methods.

We cannot be certain that we will be able to continue to identify and to consummate strategic transactions and no assurance can be given with respect to the timing, likelihood or business effect of any possible transaction. For example, in many cases we begin negotiations that we subsequently decide to suspend or terminate for a variety of reasons. However, opportunities may arise from time to time that we will evaluate. Any transactions that we consummate would involve risks and uncertainties to us. These risks could cause the failure of any anticipated benefits of an acquisition to be realized, which could have a material adverse effect on our revenues and profitability.

Although we expect benefits to result from the acquisition of TD Waterhouse, we may not fully realize those benefits because of remaining integration challenges.

Our failure to meet the challenges involved in integrating the operations of Ameritrade and TD Waterhouse successfully or otherwise to realize any of the anticipated benefits of the acquisition of TD Waterhouse, including anticipated cost savings, could seriously harm our results of operations. Realizing the benefits of the acquisition of TD Waterhouse will depend in part on completing the integration of technology, operations and personnel. The integration of the companies is a complex, time-consuming and expensive process that, without proper planning and effective and timely implementation, could significantly disrupt our business.

The ongoing challenges in this integration include the following:

- demonstrating to the clients of Ameritrade and to the clients of TD Waterhouse that the integration of TD Waterhouse will not result in adverse changes in client service standards or business focus and helping clients conduct business easily with the combined company;
- consolidating and rationalizing technology platforms and administrative infrastructures;
- coordinating sales and marketing efforts to effectively communicate the capabilities of the combined company;

integrating and rationalizing clearing platforms;

minimizing the diversion of management attention from ongoing business concerns; and

combining the corporate cultures, maintaining employee morale and retaining key employees.

We may not successfully integrate the operations of Ameritrade and TD Waterhouse in a timely manner, or at all, and we may not realize the anticipated benefits or synergies of the acquisition of TD Waterhouse to the extent, or in the timeframe, forecasted. The anticipated benefits and synergies include cost savings associated with anticipated restructurings and other operational efficiencies, greater economies of scale and revenue enhancement opportunities. However, these anticipated benefits and synergies assume a successful integration and are based on projections, which are inherently uncertain, and other assumptions. Even if integration is successful, anticipated benefits and synergies may not be achieved. In addition to the integration risks discussed above, our ability to realize these benefits and synergies could be adversely impacted by practical or legal constraints on our ability to combine operations or implement workforce reductions.

Risk Factors Relating to Owning Our Stock

The market price of our common stock could fluctuate significantly.

Our common stock, and the U.S. securities markets in general, experience significant price fluctuations. The market prices of securities of Internet-related companies, in particular, have been especially volatile. The price of our common stock could decrease substantially. In addition, because the market price of our common stock tends to fluctuate significantly, we could become the object of securities class action litigation, which could result in substantial costs and a diversion of management s attention and resources.

We are restricted by the terms of our senior credit facilities.

We entered into a credit agreement, as amended, on January 23, 2006 for $2.2 billion in senior credit facilities with a syndicate of lenders. These credit facilities contain various covenants and restrictions that may limit our ability to:

incur additional indebtedness;

create liens;

sell assets and make capital expenditures;

pay dividends or make distributions;

repurchase our common stock;

make investments;

merge or consolidate with another entity; and

conduct transactions with affiliates.

As a result of the covenants and restrictions contained in the credit facilities, we are limited in how we conduct our business. We cannot guarantee that we will be able to remain in compliance with these covenants or be able to obtain waivers for noncompliance in the future.

Our corporate debt level may limit our ability to obtain additional financing.

In connection with the payment of the special cash dividend of $6.00 per share and to fund working capital requirements after the acquisition of TD Waterhouse, we borrowed approximately $1.9 billion. Our ability to meet our cash requirements, including our debt service obligations, is dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are or may be beyond our control. We cannot provide assurance that our business will generate sufficient cash flows from operations to fund these cash requirements, including our debt service obligations. If we are unable to meet our cash requirements from operations, we would be required to fund these cash requirements by alternative financing. The degree to which we may be leveraged as a result of the indebtedness incurred in connection with payment of the special dividend or otherwise could materially and adversely affect our ability to obtain financing for working capital, acquisitions or other purposes, could make us more vulnerable to industry downturns and competitive pressures or could limit our flexibility in planning for, or reacting to, changes and opportunities in our industry, which may place us at a competitive disadvantage. There can be no assurance that we would be able to obtain alternative financing, that any such financing would be on acceptable terms or that we would be permitted to do so under the terms of existing financing arrangements. In the absence of such financing, our ability to respond to changing business and economic conditions, make future acquisitions, react to adverse operating results, meet our debt service obligations, or fund required capital expenditures, could be materially and adversely affected.

TD and the Ricketts holders exercise significant influence over TD AMERITRADE.

As of September 29, 2006, TD and J. Joe Ricketts, our Chairman and Founder, members of his family and trusts held for their benefit, which we collectively refer to as the Ricketts holders, own approximately 39.6 percent and 20.4 percent of the outstanding voting securities of TD AMERITRADE, respectively. TD is permitted under the terms of a stockholders agreement to own up to 39.9 percent of the outstanding shares of TD AMERITRADE common stock during the three years following the January 24, 2006 closing of the transaction, up to 45 percent of the outstanding shares of TD AMERITRADE common stock for the remainder of the term of the stockholders agreement (a maximum of 10 years following the closing) and an unlimited number of shares of TD AMERITRADE following the termination of the stockholders agreement. The Ricketts holders are permitted under the terms of the stockholders agreement to own up to 29 percent of the outstanding shares of TD AMERITRADE. As a result, TD and the Ricketts holders generally have the ability to significantly influence the outcome of any matter submitted for the vote of TD AMERITRADE stockholders. The stockholders agreement also provides that TD will designate five of the twelve members of the TD AMERITRADE board of directors and the Ricketts holders will designate three of the twelve members of the TD AMERITRADE board of directors, subject to adjustment based on their respective ownership positions in TD AMERITRADE. Accordingly, TD and the Ricketts holders generally will be able to significantly influence the outcome of all matters that come before the TD AMERITRADE board. As a result of their significant interest in TD AMERITRADE, TD or the Ricketts holders may have the power, subject to applicable law, to significantly influence actions that might be favorable to TD or the Ricketts holders, but not necessarily favorable to other TD AMERITRADE stockholders. In addition, the ownership position and governance rights of TD and the Ricketts holders could discourage a third party from proposing a change of control or other strategic transaction concerning TD AMERITRADE. As a result, the common stock of TD AMERITRADE could trade at prices that do not reflect a takeover premium to the same extent as do the stocks of similarly situated companies that do not have a stockholder with an ownership interest as large as TD s and the Ricketts holders combined ownership interest.

Conflicts of interest may arise between TD AMERITRADE and TD, which may be resolved in a manner that adversely affects TD AMERITRADE s business, financial condition or results of operations.

Conflicts of interest may arise between TD AMERITRADE and TD in areas relating to past, ongoing and future relationships, including corporate opportunities, potential acquisitions or financing transactions, sales or other dispositions by TD of its interests in TD AMERITRADE and the exercise by TD of its influence over the management and affairs of TD AMERITRADE. Some of the directors on the TD AMERITRADE board are persons who are also officers or directors of TD or its subsidiaries. Service as a director or officer of both TD AMERITRADE and TD or its other subsidiaries could create conflicts of interest if such directors or officers are faced with decisions that could have materially different implications for TD AMERITRADE and for TD. Our amended and restated certificate of incorporation contains provisions relating to the avoidance of direct competition between TD AMERITRADE and TD. The parties have not established any other formal procedures for TD AMERITRADE and TD to resolve potential or actual conflicts of interest between them. There can be no assurance that any of the foregoing conflicts will be resolved in a manner that does not adversely affect the business, financial condition or results of operations of TD

AMERITRADE. In addition, the provisions of the stockholders agreement related to non-competition are subject to numerous exceptions and qualifications and may not prevent TD AMERITRADE and TD from competing with each other to some degree in the future.

The terms of the stockholders agreement, our charter documents and Delaware law could inhibit a takeover that stockholders may consider favorable.

Provisions in the stockholders agreement among TD and the Ricketts holders, our certificate of incorporation and bylaws and Delaware law will make it difficult for any party to acquire control of us in a transaction not approved by the requisite number of directors. These provisions include:

- the presence of a classified board of directors;
- the ability of the board of directors to issue and determine the terms of preferred stock;
- advance notice requirements for inclusion of stockholder proposals at stockholder meetings; and
- the anti-takeover provisions of Delaware law.

These provisions could delay or prevent a change of control or change in management that might provide stockholders with a premium to the market price of their common stock.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our corporate headquarters is located in Omaha, Nebraska, and occupies approximately 74,000 square feet of leased space. The lease expires in April 2019. Also in the Omaha metropolitan area, we lease approximately 154,000 square feet for an operations center as well as other locations totaling approximately 23,000 square feet. The leases on these other Omaha-area locations expire on various dates from 2008 through 2009. We lease approximately 185,000 and 140,000 square feet for additional operations centers in Jersey City, New Jersey and Ft. Worth, Texas, respectively. The Jersey City and Ft. Worth leases expire in 2015. We lease smaller administrative and operational facilities in California, Florida, Illinois, Kansas, Maryland, Missouri, New Jersey, New York, Oregon, Pennsylvania, Texas and Utah. We also lease over 100 branch offices located in large metropolitan areas in 35 states. We believe that our facilities are suitable and adequate to meet our needs.

Item 3. ***Legal Proceedings***

Legal 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.

Net Capital Matter In November 2004, the NASD initiated an inquiry into a transfer of client cash balances held at the Company s broker-dealer subsidiary, Ameritrade, Inc., to FDIC-insured deposit accounts held at banks. 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 believed 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.

On November 14, 2005, the NASD advised Ameritrade, Inc. that the NASD Staff made a preliminary determination to recommend disciplinary action against the Company based on allegations that it violated SEC net capital and customer protection rules and NASD conduct rules. Ameritrade, Inc. submitted a response setting forth the reasons it believes that the NASD should not bring a disciplinary action. Conditioned upon the final agreement of the NASD, the Company currently expects Ameritrade, Inc. to settle this matter for an amount that is not expected to have a material effect on the Company s financial condition, results of operations, or cash flows. This matter had no impact on the Company s results of operations or net cash flows for any period presented in this annual report on Form 10-K.

Other Regulatory Matters The Company is in discussions with its regulators about other matters raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company s financial condition, results of operations or cash flows. However, the Company is unable to predict the outcome of these matters.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of stockholders during the fourth quarter of fiscal 2006.

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Price Range of Common Stock

Our common stock trades on the Nasdaq Global Select Market under the symbol AMTD . The following table shows the high and low sales prices for the common stock for the periods indicated, as reported by the Nasdaq Global Select Market. The prices reflect inter-dealer prices and do not include retail markups, markdowns or commissions.

	Common Stock Price			
	For the Fiscal Year Ended September 29, 2006		For the Fiscal Year Ended September 30, 2005	
	High	Low	High	Low
First Quarter	$ 25.00	$ 18.93	$ 14.61	$ 11.21
Second Quarter*	$ 26.37	$ 18.86	$ 14.38	$ 10.02
Third Quarter	$ 22.19	$ 13.50	$ 19.00	$ 9.91
Fourth Quarter	$ 19.18	$ 13.30	$ 22.25	$ 18.04

* In connection with the acquisition of TD Waterhouse during the second quarter of fiscal 2006, we declared and paid a special cash dividend of $6.00 per share.

The closing sale price of our common stock as reported on the Nasdaq Global Select Market on November 27, 2006 was $17.09 per share. As of that date there were 730 holders of record of our common stock based on information provided by our transfer agent. The number of stockholders of record does not reflect the actual number of individual or institutional stockholders that own our stock because most stock is held in the name of nominees. Based on information available to us, there are approximately 131,000 beneficial holders of our common stock.

Dividends

We have not declared or paid regular cash dividends on our common stock. In connection with our acquisition of TD Waterhouse in January 2006, we declared and paid a special cash dividend of $6.00 per share. We currently intend to retain all of our earnings, if any, for use in our business and do not anticipate paying any other cash dividends in the foreseeable future. Our credit agreement prohibits the payment of cash dividends. The payment of any future dividends will be at the discretion of our Board of Directors, subject to the provisions of the credit agreement, and will depend upon a number of factors, including future earnings, the success of our business activities, capital requirements, the general financial condition and future prospects of our business, general business conditions and such other factors as the Board of Directors may deem relevant.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

	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**
July 1, 2006 July 28, 2006	7,951	$ 15.78		N/A
July 29, 2006 August 25, 2006	1,080,000	$ 17.66	1,080,000	10,920,000
August 26, 2006 September 29, 2006	2,720,000	$ 17.66	2,720,000	8,200,000
Total Three months ended September 29, 2006	3,807,951	$ 17.66	3,800,000	8,200,000

Our common stock repurchase program was authorized on August 2, 2006. Our Board of Directors originally authorized the Company to repurchase up to 12 million shares. On November 15, 2006, the Board of Directors added 20 million shares to the original authorization, increasing the total authorization from 12 million shares to 32 million shares. This program is the only program currently in effect and there were no programs that expired during the fourth quarter of fiscal 2006. The shares repurchased during July 2006 were repurchased from an employee for income tax withholding in connection with a stock distribution from the Company s Executive Deferred Compensation Program.

J. Joe Ricketts, Chairman and Founder of the Company, made open-market purchases during the fourth quarter of fiscal 2006. The following table summarizes purchases reported by J. Joe Ricketts on Forms 4:

	Affiliate 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**
July 1, 2006 July 28, 2006	7,288,342	$ 15.62		
July 29, 2006 August 25, 2006	6,800,000	$ 17.90		
August 26, 2006 September 29, 2006				
	14,088,342	$ 16.72		N/A

Total Three months ended
September 29, 2006

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Item 6. ***Selected Financial Data***

	Fiscal Year Ended*				
	Sept. 29, 2006	**Sept. 30, 2005**	**Sept. 24, 2004**	**Sept. 26, 2003**	**Sept. 27, 2002**
	(In thousands, except per share amounts)				
Consolidated Statements of Operations Data:					
Revenues:					
Transaction-based revenues:					
Commissions and transaction fees	$ 727,407	$ 523,985	$ 560,052	$ 472,760	$ 252,526
Asset-based revenues:					
Interest revenue	1,031,971	540,348	278,550	184,175	128,649
Brokerage interest expense	(335,820)	(141,399)	(41,861)	(33,192)	(24,564)
Net interest revenue	696,151	398,949	236,689	150,983	104,085
Money market deposit account fees	185,014				
Money market and other mutual fund fees	139,586	25,051	21,425	14,662	13,989
Total asset-based revenues	1,020,751	424,000	258,114	165,645	118,074
Other revenues	55,373	55,168	61,947	74,849	60,193
Net revenues	1,803,531	1,003,153	880,113	713,254	430,793
Expenses:					
Employee compensation and benefits	350,079	180,579	154,792	172,159	133,897
Fair value adjustments of compensation- related derivative instruments	(1,715)				
Clearing and execution costs	73,049	26,317	30,610	35,711	19,086
Communications	65,445	35,663	39,853	41,420	31,429
Occupancy and equipment costs	74,638	43,411	42,353	57,091	57,060
Depreciation and amortization	21,199	10,521	11,066	13,917	26,170
Amortization of acquired intangible assets	42,286	13,887	12,158	17,791	1,775
Professional services	87,521	30,630	27,381	31,121	25,753
Interest on borrowings	93,988	1,967	2,581	5,076	5,110
Other	45,383	22,689	17,798	15,205	12,986
Advertising	164,072	92,312	100,364	90,415	72,638
Fair value adjustments of investment-related derivative instruments	11,703	(8,315)	(17,930)	46,668	
Restructuring and asset impairment charges				5,991	63,406

Total expenses	1,027,648	449,661	421,026	532,565	449,310
Income (loss) before other income and income taxes	775,883	553,492	459,087	180,689	(18,517)
Other income:					
Gain on disposal of investments	81,422				
Pre-tax income (loss)	857,305	553,492	459,087	180,689	(18,517)
Provision for income taxes	330,546	213,739	176,269	72,048	10,446
Net income (loss)	$ 526,759	$ 339,753	$ 282,818	$ 108,641	$ (28,963)
Basic earnings (loss) per share	$ 0.97	$ 0.84	$ 0.68	$ 0.25	$ (0.13)
Diluted earnings (loss) per share	$ 0.95	$ 0.82	$ 0.66	$ 0.25	$ (0.13)
Weighted average shares outstanding basic	544,307	404,215	417,629	427,376	227,327
Weighted average shares outstanding diluted	555,465	413,167	426,972	432,480	227,327
Dividends declared per share	$ 6.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

* Fiscal 2005 was a 53-week year. All other periods presented are 52-week years.

	Sept. 29, 2006	Sept. 30, 2005	As of Sept. 24, 2004 (In thousands)	Sept. 26, 2003	Sept. 27, 2002
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 363,650	$ 171,064	$ 137,392	$ 248,623	$ 198,398
Short-term investments	65,275	229,819	17,950		
Segregated cash and investments	1,561,910	7,595,359	7,802,575	7,878,421	5,665,109
Receivable from clients, net	6,970,834	3,784,688	3,100,572	2,202,170	1,419,469
Total assets	16,558,469	16,417,110	15,277,021	14,404,268	9,800,841
Payable to clients	5,412,981	10,095,837	10,322,539	9,611,243	6,374,644
Long-term obligations	1,710,712	45,736	37,803	82,489	47,645
Stockholders equity	1,730,234	1,518,867	1,210,908	1,235,774	1,098,399

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

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, interest rates, stock market fluctuations and changes in client trading activity, increased competition, systems failures and capacity constraints, network security risks, ability to service debt obligations, integration associated with the TD Waterhouse acquisition, realization of synergies from the TD Waterhouse acquisition, regulatory and legal matters and uncertainties and the other risks and uncertainties set forth under Item 1A. Risk Factors of this Form 10-K. 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, forward-looking statements contained in this discussion include our expectations regarding: the amount of annualized pre-tax synergies to be realized from the integration of TD Waterhouse; the effect of changes in interest rates on our net interest spread; average commissions and transaction fees per trade; amounts of commissions and transaction fees, net interest revenue, money market deposit account fees, money market and other mutual fund fees and other revenues; amounts of employee compensation and benefits, clearing and execution costs, communications, occupancy and equipment costs, depreciation and amortization, amortization of acquired intangible assets, professional services, interest on borrowings, other operating expenses and advertising expenses; our effective income tax rate; our capital and liquidity needs and our plans to finance such needs; our stock repurchase program; and the impact of recently issued accounting pronouncements.

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. The term GAAP refers to U.S. generally accepted accounting principles.

Glossary of Terms

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

Asset-based revenues Revenues consisting of (1) *net interest revenue*, (2) *money market deposit account (MMDA) fees* and (3) money market and other mutual fund fees. The primary factors driving our asset-based revenues are average client margin balances, average segregated cash balances, average client credit balances, average client MMDA balances and the average interest rates and fees earned and paid on such balances.

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

Basis point When referring to interest rates, one basis point represents one one-hundredth of one percent.

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 cash and money market assets The sum of all client cash balances, including *client credit balances* and client cash balances swept into money market deposit accounts or money market mutual funds.

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 credit balances are included in payable to clients in the Consolidated Balance Sheets.

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.* Client margin balances are included in receivable from clients in the Consolidated Balance Sheets.

EBITDA and EBITDA Excluding Investment Gains EBITDA (earnings before interest, taxes, depreciation and amortization) and EBITDA excluding investment gains are considered Non-GAAP financial measures as defined by SEC Regulation G. We consider EBITDA and EBITDA excluding investment gains important measures 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 is used as the denominator in the consolidated leverage ratio calculation for our senior credit facilities. The consolidated leverage ratio determines the interest rate margin charged on the senior credit facilities. EBITDA eliminates the non-cash effect of tangible asset depreciation and intangible asset amortization. EBITDA excluding investment gains also eliminates the effect of unusual gains that are not likely to be indicative of the ongoing operations of our business. EBITDA and EBITDA excluding investment gains should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

EPS excluding investment gains/losses EPS excluding investment gains/losses is a Non-GAAP financial measure as defined by SEC Regulation G. We define EPS excluding investment gains/losses as earnings (loss) per share, adjusted to remove the after-tax effect of investment-related gains and losses. We consider EPS excluding investment gains/losses an important measure of our financial performance. Gains/losses on investments and investment-related derivatives are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. EPS excluding investment gains/losses should be considered in addition to, rather than as a substitute for, GAAP earnings per share.

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, GAAP 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 generally 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.

Investable assets Client and brokerage-related asset balances, including *client margin balances*, *segregated cash*, *money market deposit account (MMDA)* balances, deposits paid on securities borrowing and other free cash and short-term investment balances. Investable assets is used in the calculation of our *net interest margin.*

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) non broker-dealer short-term investments and c) regulatory net capital of (i) our clearing broker-dealer subsidiaries in excess of five percent of aggregate debit items and (ii) our introducing broker-dealer subsidiary in excess of 81/3 percent of aggregate indebtedness. 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 as a supplemental measure of liquidity, 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.

Money market deposit account (MMDA) fees Revenues resulting from the Money Market Deposit Account Agreement with TD Bank USA, N.A. (TD Bank USA), a subsidiary of TD, which became effective upon the closing of our acquisition of TD Waterhouse. Under the MMDA agreement, TD Bank USA makes available to clients of our broker-dealer subsidiaries money market deposit accounts as designated sweep vehicles. With respect to the MMDA accounts, our broker-dealer subsidiaries provide marketing and support services and act as recordkeeper for TD Bank USA, and act as agent for clients. In exchange for these services, TD Bank USA pays our broker-dealer subsidiaries a fee based on the actual yield earned by TD Bank USA on the client MMDA assets, less the actual interest cost paid to clients, actual interest cost incurred on borrowings, a flat fee to TD Bank USA of 20 basis points and certain direct expenses.

Net interest margin (NIM) A measure of the net yield on our average *investable assets.* Net interest margin is calculated for a given period by dividing the annualized sum of *net interest revenue* and *money market deposit account (MMDA) fees* by average *investable assets.*

Net interest revenue Net interest revenue is interest revenues less brokerage 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. Brokerage interest expense consists of amounts paid or payable to clients based on credit balances maintained in *brokerage accounts* and other brokerage-related interest expense. Brokerage interest expense does not include interest on Company borrowings.

Net new accounts or Net account growth The number of new client accounts (funded and unfunded) opened in a specified period minus the number of client accounts closed in the same period.

Non-GAAP net income and Non-GAAP EPS Non-GAAP net income and Non-GAAP EPS are Non-GAAP financial measures as defined by SEC Regulation G. We define Non-GAAP net income as net income, adjusted to remove the after-tax effect of amortization of acquired intangible assets, interest on borrowings, fair value adjustments of investment-related derivative instruments and any unusual gains or charges. We consider Non-GAAP net income and Non-GAAP EPS important measures 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. Amortization of acquired intangible assets and fair value adjustments of investment-related derivative instruments are excluded because they are non-cash expenses that do not require further cash investment. Interest on borrowings is excluded because we use these measures as an indicator of the earnings available to service debt. Unusual gains and charges are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. Non-GAAP net income and EPS should be considered in addition to, rather than as a substitute for, GAAP net income and earnings per share.

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, fair value adjustments of investment-related derivative instruments 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. Fair value adjustments of investment-related derivative instruments and 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, net income and earnings per share.

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 may be eligible for *margin account* approval.

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 a significant 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.

Transaction-based revenues Revenues generated from client trade execution, consisting primarily of commissions, transaction clearing fees and revenue sharing arrangements with market destinations (also known as payment for order flow).

Overview

We provide securities brokerage and clearing execution services to our clients through our introducing and clearing broker-dealers. Substantially all of our net revenues are derived from our brokerage activities and clearing and execution services.

Our primary focus is serving retail clients and registered investment advisors by providing services at low prices that are generally simpler than most of our competitors. Our brokerage clients are able to trade securities with us through a variety of channels, principally the Internet. We provide our clients with investment news and information as well as educational services. We also provide clearing and execution services to our brokerage operations.

Our largest sources of revenues are (1) asset-based revenues and (2) transaction-based revenues. The primary factors driving our asset-based revenues are average balances and average rates. Average balances consist primarily of average client margin balances, average segregated cash balances, average client credit balances, average client money market deposit account (MMDA) balances and average securities borrowing and lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances. The primary factors driving our transaction-based revenues are total client trades and average commissions and transaction fees per trade. We also receive payment for order flow, which results from arrangements we have with many execution agents to receive cash payments in exchange for routing trade orders to these firms for execution and is included in commissions and transaction fees on the Consolidated Statements of Income.

Our largest operating expense generally is employee compensation and benefits. Employee compensation and benefits expense includes salaries, bonuses, stock-based compensation, group insurance, contributions to benefit programs, recruitment and other related employee costs. Fair value adjustments of compensation-related derivative instruments represent adjustments to equity swap agreements that are intended to economically offset TD Waterhouse stock-based compensation (assumed in the TD Waterhouse acquisition) that is based on the value of TD stock. See Business Combination below for a discussion of the acquisition of TD Waterhouse.

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 outsourced clearing services, statement and confirmation processing and postage costs and clearing expenses paid to the National Securities Clearing Corporation, option exchanges and other market centers. Communications expense includes telecommunications, other postage, news and quote costs. Occupancy and equipment costs include the costs of leasing and maintaining our office spaces and the lease expenses on computer and other equipment. Depreciation and amortization includes depreciation on property and equipment and amortization of leasehold improvements. Amortization of acquired intangible assets consists of amortization of amounts allocated to the value of intangible assets acquired in business combinations.

Professional services expense includes costs paid to outside firms for assistance with legal, accounting, technology, regulatory, marketing and general management issues. Interest on borrowings consists of interest expense on our long-term debt, capital leases, prepaid variable forward contracts and other borrowings. Other operating expenses include provision for bad debt losses, fraud losses, client trade execution price adjustments, gains or losses on disposal of property, travel expenses and other miscellaneous expenses. Advertising costs are expensed as incurred and include production and placement of advertisements in various media, including online, television, print and direct mail, as well as client promotion and development costs. Advertising expenses may increase or decrease significantly from period to period. Fair value adjustments of investment-related derivative instruments consist of changes in the fair value of the embedded collars within our Knight prepaid variable forward contracts. In January 2006, we liquidated our position in Knight and the prepaid variable forward contracts.

Our fiscal year ends on the last Friday in September. References to fiscal year in this document or in the information incorporated herein by reference are to the fifty-two or fifty-three week period ended on any such Friday. For example, fiscal 2006 refers to the fiscal year ended September 29, 2006. Fiscal years 2006 and 2004 were each fifty-two week years. Fiscal 2005 was a fifty-three week year.

Business Combination

On January 24, 2006, we completed the acquisition of TD Waterhouse Group, Inc. (TD Waterhouse), a Delaware corporation, pursuant to an Agreement of Sale and Purchase, dated June 22, 2005, as amended (the Purchase Agreement), with The Toronto-Dominion Bank (TD). We purchased from TD (the Share Purchase) all of the capital stock of TD Waterhouse in exchange for 196,300,000 shares of Company common stock, and $20,000 in cash. The shares of common stock issued to TD in the Share Purchase represented approximately 32.5 percent of the outstanding shares of the Company after giving effect to the transaction. Upon the completion of the transaction, we changed our name to TD AMERITRADE Holding Corporation and the authorized shares of common stock of the Company were increased from 650 million to one billion. Our consolidated financial statements include the results of operations for TD Waterhouse beginning January 25, 2006. In addition, on January 24, 2006, we completed the sale of Ameritrade Canada, Inc. to TD for $60 million in cash. We have agreed not to compete or own any portion of a business that competes with TD in Canada (including in the retail securities brokerage business) after the consummation of the Share Purchase. The purchase price for the acquisition of TD Waterhouse and the sale price for the sale of Ameritrade Canada were subject to cash adjustments based on the closing date balance sheets of the Company, TD Waterhouse and Ameritrade Canada. On May 5, 2006, we received approximately $45.9 million from TD for the settlement of cash adjustments related to the purchase of TD Waterhouse and the sale of Ameritrade Canada.

Pursuant to the Purchase Agreement, prior to the consummation of the Share Purchase, TD Waterhouse conducted a reorganization in which it transferred its Canadian retail securities brokerage business and TD Bank USA, N.A. (formerly TD Waterhouse Bank, N.A.) to TD such that, at the time of consummation of the Share Purchase, TD Waterhouse retained only its United States retail securities brokerage business. TD Waterhouse also distributed to TD excess capital of TD Waterhouse above certain thresholds prior to the consummation of the Share Purchase. As contemplated in the Purchase Agreement, on January 24, 2006, we commenced payment of a special cash dividend of $6.00 per share in respect of the shares of our common stock outstanding prior to the consummation of the Share Purchase. The total amount of the dividend was approximately $2.4 billion.

In connection with the Purchase Agreement, TD was given rights to have its shares of common stock of the Company registered for resale. TD licensed us the right to use the TD name in connection with the operation of our business. The parties also entered into agreements regarding bank sweep accounts and mutual funds.

In connection with the Purchase Agreement, the Company, TD and J. Joe Ricketts, our Chairman and Founder, and certain of his affiliates also entered into a Stockholders Agreement, as amended (the Stockholders Agreement). The Stockholders Agreement sets forth certain governance arrangements and contains various provisions relating to stock ownership, voting, election of directors and other matters. Our certificate of incorporation and bylaws were amended and restated as of January 24, 2006, to give effect to and facilitate the provisions contained in the Stockholders Agreement.

At the time of the closing of the TD Waterhouse acquisition, we expected to realize approximately $678 million of annualized pre-tax synergies from the acquisition of TD Waterhouse within 18 months of the closing, consisting of $300 million in revenue opportunities primarily related to our new banking relationship with TD and $378 million in cost savings related to the elimination of duplicate expenditures. As of September 29, 2006, we estimate that we have realized annualized pre-tax revenue opportunities of over $300 million and annualized pre-tax cost savings of approximately $143 million.

Client Segmentation Strategy and New Client Offerings

The TD Waterhouse acquisition is part of our long-term growth strategy that includes increasing our focus beyond active traders to obtain greater market share from long-term investors and independent financial advisors. This acquisition gives us a nationwide branch network, a sales force that focuses on acquiring long-term investors and client assets and also gives us access to TD Waterhouse s network of registered investment advisors.

Following a study, we announced new client offerings on April 24, 2006 that are intended to help increase market share from these three client segments. Our new client offerings include a $9.99 per trade flat-rate price for online equity trades and elimination of quarterly account maintenance fees. Our client survey research indicated that clients want simple, understandable pricing, coupled with innovative tools, comprehensive research, outstanding service and excellent execution. Our new flat-rate commission is not intended to compete solely based on price-point, but rather to be considered as a proposition for great value when combined with the products and services that we have designed with the goal of improving market share.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires us to make judgments and estimates that may have a significant impact upon our financial results. Note 1 to the consolidated financial statements contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions. We believe that the following areas are particularly subject to management s judgments and estimates and could materially affect our results of operations and financial position.

Valuation of goodwill and acquired intangible assets

We test goodwill for impairment on at least an annual basis, or whenever events and circumstances indicate that the carrying value may not be recoverable. In performing the impairment tests, we utilize quoted market prices of our common stock to estimate the fair value of the Company as a whole. The estimated fair value is then allocated to our reporting units, if applicable, based on operating revenues, and is compared with the carrying value of the reporting units. No impairment charges have resulted from our annual impairment tests. We review our acquired intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. We evaluate recoverability by comparing the undiscounted cash flows associated with the asset to the asset s carrying amount. We also evaluate the remaining useful lives of intangible assets each reporting period to determine if events or trends warrant a revision to the remaining period of amortization. We have had no events or trends that have warranted a revision to the originally estimated useful lives.

Valuation and accounting for derivative financial instruments

We may utilize derivative financial instruments to manage risks such as interest rate risk, foreign currency risk or market risk. Our derivatives policy prohibits us from using derivatives for speculative or trading purposes.

Accounting for derivatives differs significantly depending on whether a derivative is designated as a hedge, which is a transaction intended to reduce a risk associated with a specific balance sheet item or future expected cash flow at the time it is purchased. In order to qualify as a hedge, a derivative must be designated as such by management, who must also continue to evaluate whether the instrument effectively reduces the risk associated with that item.

To determine if a derivative instrument continues to be an effective hedge, we must make assumptions and judgments about the continued effectiveness of our hedging strategies and the nature and timing of forecasted transactions. If our hedging strategy were to become ineffective, we could no longer apply hedge accounting and our reported results of operations or financial condition could be materially affected.

Valuation of stock-based compensation

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), *Share-Based Payment* (No. 123R). Under the fair value recognition provisions of SFAS No. 123R, share-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period based on the number of awards for which the requisite service is expected to be rendered. We must make assumptions regarding the number of share-based awards that will be forfeited. For performance-based awards, we must also make assumptions regarding the likelihood of achieving performance goals. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially affected.

Estimates of effective income tax rates, deferred income taxes and valuation allowances

We estimate our income tax expense based on the various jurisdictions where we conduct business. This requires us to estimate our current income tax obligations and to assess temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities. Temporary differences result in deferred income tax assets and liabilities. We must evaluate the likelihood that deferred income tax assets will be realized. To the extent we determine that realization is not more likely than not, we establish a valuation allowance. Establishing or increasing a valuation allowance results in corresponding income tax expense in our Consolidated Statements of Income. Conversely, to the extent circumstances indicate that a valuation allowance is no longer necessary, that portion of the valuation allowance is reversed, reducing income tax expense.

We must make significant judgments to calculate our provision for income taxes, our deferred income tax assets and liabilities and any valuation allowance against our deferred income tax assets. We must also exercise judgment in determining the need for, and amount of, any accruals for taxes relating to results of examinations of current and prior years returns by taxing authorities. Because the application of tax laws and regulations to many types of transactions is subject to varying interpretations, amounts reported in the consolidated financial statements could be significantly changed at a later date upon final determinations by taxing authorities.

Results of Operations

Conditions in the U.S. equity markets significantly impact the volume of our clients trading activity. There is a direct 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 increases, 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.

Changes in average balances, especially client margin balances, client credit balances and client MMDA balances, may also significantly impact our results of operations. Changes in interest rates impact our results of operations to a lesser extent because we seek to mitigate interest rate risk by aligning the average duration of our interest-earning assets with that of our interest-bearing liabilities. We cannot predict the direction of interest rates or the levels of client balances. If interest rates rise, we generally expect to earn a larger net interest spread. Conversely, a falling interest rate environment generally would result in our earning a smaller net interest spread.

Financial Performance Metrics

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

We define operating margin as pre-tax income, adjusted to remove advertising expense, fair value adjustments of investment-related derivative instruments 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 generally relates to the acquisition of future revenues through new accounts rather than current revenues from existing accounts. Fair value adjustments of investment-related derivative instruments and 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, net income and earnings per share.

We consider EBITDA and EBITDA excluding investment gains important measures 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 is used as the denominator in the consolidated leverage ratio calculation for our senior credit facilities. The consolidated leverage ratio determines the interest rate margin charged on the senior credit facilities. EBITDA eliminates the non-cash effect of tangible asset depreciation and intangible asset amortization. EBITDA excluding investment gains also eliminates the effect of unusual gains that are not likely to be indicative of the ongoing operations of our business. EBITDA and EBITDA excluding investment gains 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, EBITDA and EBITDA excluding investment gains 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):

				Fiscal Year Ended				
	September 29, 2006		September 30, 2005		September 24, 2004			
	$	% of Rev.	$	% of Rev.	$	% of Rev.		
Operating Margin								
Operating margin	$ 951,658	52.8%	$ 637,489	63.5%	$ 541,521	61.5%		
Less:								
Advertising	(164,072)	(9.1)%	(92,312)	(9.2)%	(100,364)	(11.4)%		
Fair value adjustments of investment-related derivative instruments	(11,703)	(0.6)%	8,315	0.8%	17,930	2.0%		
Income before other income and income taxes	775,883	43.0%	553,492	55.2%	459,087	52.2%		
Gain on disposal of investments	81,422	4.5%	0	0.0%	0	0.0%		
Pre-tax income	$ 857,305	47.5%	$ 553,492	55.2%	$ 459,087	52.2%		
EBITDA and EBITDA Excluding Investment Gains								
EBITDA excluding investment gains	$ 933,356	51.8%	$ 579,867	57.8%	$ 484,892	55.1%		
Plus: Gain on disposal of investments	81,422	4.5%	0	0.0%	0	0.0%		
EBITDA	1,014,778	56.3%	579,867	57.8%	484,892	55.1%		
Less:								
Depreciation and amortization	(21,199)	(1.2)%	(10,521)	(1.0)%	(11,066)	(1.3)%		
Amortization of acquired intangible assets	(42,286)	(2.3)%	(13,887)	(1.4)%	(12,158)	(1.4)%		
Interest on borrowings	(93,988)	(5.2)%	(1,967)	(0.2)%	(2,581)	(0.3)%		

Pre-tax income	$	857,305	47.5%	$	553,492	55.2%	$	459,087	52.2%

The dollar amounts of our pre-tax income, operating margin and EBITDA excluding investment gains increased for fiscal 2006, compared to fiscal 2005, primarily due to increased business resulting from the TD Waterhouse acquisition. However, pre-tax income, operating margin and EBITDA excluding investment gains all decreased as a percentage of net revenues for fiscal 2006 primarily due to the TD Waterhouse acquisition. Total expenses were higher as a percentage of net revenues in fiscal 2006 due to the effect of operating two back-office clearing platforms following the TD Waterhouse acquisition, higher interest on borrowings due to the debt issued to fund the special cash dividend and higher amortization of intangible assets due to the value assigned to the TD Waterhouse client relationships.

Operating Metrics

Our largest sources of revenues are (1) asset-based revenues and (2) transaction-based revenues. For fiscal 2006, asset-based revenues and commissions and transaction fees accounted for 57 percent and 40 percent of our net revenues, respectively. Asset-based revenues consist of (1) net interest revenue, (2) MMDA fees and (3) money market and other mutual fund fees. The primary factors driving our asset-based revenues are average balances and average rates. Average balances consist primarily of average client margin balances, average segregated cash balances, average client credit balances, average client MMDA balances and average securities borrowing and lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances. The primary factors driving our transaction-based revenues are total client trades and average commissions and transaction fees per trade. We also consider client account and client asset metrics, although we believe they are generally of less significance to our results of operations for any particular period than our asset-based revenue and trading activity metrics.

Asset-Based Revenue Metrics

We calculate the return on our interest-earning assets and our MMDA balances using a measure we refer to as net interest margin. Net interest margin is calculated for a given period by dividing the annualized sum of net interest revenue and money market deposit account (MMDA) fees by average investable assets. Investable assets consist of client and brokerage-related asset balances, including client margin balances, segregated cash, money market deposit account (MMDA) balances, deposits paid on securities borrowing and other free cash and short-term investment balances. The following table sets forth net interest margin and average investable assets (dollar amounts in millions):

	Fiscal Year Ended			06 vs. 05 Inc. (Dec.)	05 vs. 04 Inc. (Dec.)
	2006	**2005**	**2004**		
Average interest-earning assets	$ 17,543	$ 15,355	$ 13,814	$ 2,188	$ 1,541
Average money market deposit account balances	5,734	N/A	N/A	5,734	
Average investable assets	$ 23,277	$ 15,355	$ 13,814	$ 7,922	$ 1,541
Net interest revenue	$ 696.2	$ 398.9	$ 236.7	$ 297.3	$ 162.2
Money market deposit account fee revenue	185.0	N/A	N/A	185.0	
Net revenue earned on investable assets	$ 881.2	$ 398.9	$ 236.7	$ 482.3	$ 162.2
Net interest margin (NIM)	3.74%	2.52%	1.69%	1.22%	0.83%

The following tables set forth key metrics that we use in analyzing net interest revenue, which is a component of net interest margin:

	Interest Revenue (Expense) Fiscal Year Ended	06 vs. 05	05 vs. 04

	2006	2005 (millions)	2004	Inc. (Dec.) (millions)	Inc. (Dec.) (millions)
Segregated cash	$ 324.9	$ 208.8	$ 84.5	$ 116.1	$ 124.3
Client margin balances	500.8	210.1	159.7	290.7	50.4
Securities borrowing	178.9	113.4	32.7	65.5	80.7
Other free cash and short-term investments	25.3	8.1	0.4	17.2	7.7
Client credit balances	(98.9)	(45.9)	(13.8)	(53.0)	(32.1)
Securities lending	(234.8)	(95.6)	(26.8)	(139.2)	(68.8)
Net interest revenue	$ 696.2	$ 398.9	$ 236.7	$ 297.3	$ 162.2

	Average Balance Fiscal Year Ended 2006	2005 (millions)	2004	06 vs. 05 % Change	05 vs. 04 % Change
Segregated cash	$ 7,235	$ 7,801	$ 7,572	(7)%	3%
Client margin balances	6,397	3,512	3,222	82%	9%
Securities borrowing	3,435	3,824	2,868	(10)%	33%
Other free cash and short-term investments	476	218	152	118%	43%
Interest-earning assets	$ 17,543	$ 15,355	$ 13,814	14%	11%
Client credit balances	$ 9,814	$ 9,482	$ 8,916	4%	6%
Securities lending	$ 5,731	$ 4,621	$ 3,716	24%	24%
Interest-bearing liabilities	$ 15,545	$ 14,103	$ 12,632	10%	12%

	Average Yield (Cost) Fiscal Year Ended 2006	2005	2004	06 vs. 05 Net Yield Inc. (Dec.)	05 vs. 04 Net Yield Inc. (Dec.)
Segregated cash	4.44%	2.60%	1.10%	1.84%	1.50%
Client margin balances	7.74%	5.81%	4.90%	1.93%	0.91%
Securities borrowing	5.15%	2.88%	1.13%	2.27%	1.75%
Other free cash and short-term investments	5.26%	3.61%	0.26%	1.65%	3.35%
Client credit balances	(1.00)%	(0.47)%	(0.15)%	(0.53)%	(0.32)%
Securities lending	(4.05)%	(2.01)%	(0.71)%	(2.04)%	(1.30)%
Net interest revenue	3.92%	2.52%	1.69%	1.40%	0.83%

The following tables set forth key metrics that we use in analyzing other asset-based revenues:

	Fee Revenue Fiscal Year Ended 2006	2005 (millions)	2004	06 vs. 05 Inc. (Dec.) (millions)	05 vs. 04 Inc. (Dec.) (millions)
Money market deposit account	$ 185.0	N/A	N/A	$ 185.0	N/A
Money market mutual fund	$ 96.0	$ 21.0	$ 18.3	$ 75.0	$ 2.7
Other mutual fund	$ 43.6	$ 4.1	$ 3.1	$ 39.5	$ 1.0

	Average Balance Fiscal Year Ended 2006	2005 (millions)	2004	06 vs. 05 % Change	05 vs. 04 % Change
Money market deposit account	$ 5,734	N/A	N/A	N/A	N/A
Money market mutual fund	$ 12,671	$ 2,735	$ 2,387	363%	15%
Other mutual fund	$ 24,866	$ 3,247	$ 2,342	666%	39%

	Average Yield Fiscal Year Ended 2006	2005	2004	06 vs. 05 Yield Inc. (Dec.)	05 vs. 04 Yield Inc. (Dec.)
Money market deposit account	3.19%	N/A	N/A	N/A	N/A
Money market mutual fund	0.75%	0.74%	0.76%	0.01%	(0.02)%
Other mutual fund	0.17%	0.12%	0.13%	0.05%	(0.01)%

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Trading Activity Metrics

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

	Fiscal Year Ended				
	September 29, 2006	September 30, 2005	September 24, 2004	06 vs. 05 % Change	05 vs. 04 % Change
Total trades (in millions)	54.24	39.94	41.74	36%	(4)%
Average commissions and transaction fees per trade	$ 13.41	$ 13.12	$ 13.42	2%	(2)%
Average client trades per day	216,970	155,696	167,958	39%	(7)%
Average client trades per account (annualized)	10.1	11.0	12.4	(8)%	(11)%
Activity rate	4.0%	4.3%	5.0%	(7)%	(14)%
Trading days	250.0	256.5	248.5	(3)%	3%

Client Account and Client Asset Metrics

The following table sets forth certain metrics regarding client accounts and client assets, which we use to analyze growth and trends in our client base:

	Fiscal Year Ended		
	September 29, 2006	September 30, 2005	September 24, 2004
Qualified accounts (beginning of period)	1,735,000	1,677,000	1,520,000
Qualified accounts (end of period)	3,242,000	1,735,000	1,677,000
Percentage change during period	87%	3%	10%
Total accounts (beginning of period)	3,717,000	3,520,000	3,171,000
Total accounts (end of period)	6,191,000	3,717,000	3,520,000
Percentage change during period	67%	6%	11%
Client assets (beginning of period, in billions)	$ 83.3	$ 68.8	$ 54.8
Client assets (end of period, in billions)	$ 261.7	$ 83.3	$ 68.8
Percentage change during period	214%	21%	26%

Qualified accounts are all open client accounts with a total liquidation value of $2,000 or more, except clearing accounts. Qualified accounts are our most significant measure of client accounts because they have historically generated the vast majority of our revenues. Total accounts are all open client accounts (funded and unfunded), except clearing accounts.

Our total and qualified accounts increased for the full fiscal year 2006, primarily due to the net addition of approximately 2.25 million total accounts in connection with the TD Waterhouse acquisition. However, our total number of qualified accounts decreased by approximately 1.5 percent during the second half of fiscal 2006. We are carefully monitoring the number of qualified accounts and are taking actions designed to increase the number of qualified accounts. Such actions include the realignment of our management team in September 2006 to further our client segmentation strategy and the implementation of our new pricing structure announced in April 2006. We also expect that the integration of the TD Waterhouse clearing platform into the legacy Ameritrade clearing platform during fiscal 2007 will enable us to offer more comprehensive product offerings. If we were to experience significant decreases in the number of qualified accounts, it could have a material adverse effect on our future results of operations.

Consolidated Statements of Income Data

The following table summarizes certain data from our Consolidated Statements of Income for analysis purposes (in millions, except percentages and interest days):

	Fiscal Year			06 vs. 05	05 vs. 04
	2006	**2005**	**2004**	**% Change**	**% Change**
Revenues:					
Transaction-based revenues:					
Commissions and transaction fees	$ 727.4	$ 524.0	$ 560.1	39%	(6)%
Asset-based revenues:					
Interest revenue	1,032.0	540.3	278.6	91%	94%
Brokerage interest expense	(335.8)	(141.4)	(41.9)	137%	238%
Net interest revenue	696.2	398.9	236.7	74%	69%
Money market deposit account fees	185.0			N/A	N/A
Money market and other mutual fund fees	139.6	25.1	21.4	457%	17%
Total asset-based revenues	1,020.8	424.0	258.1	141%	64%
Other	55.4	55.2	61.9	0%	(11)%
Net revenues	1,803.5	1,003.2	880.1	80%	14%
Expenses:					
Employee compensation and benefits	350.1	180.6	154.8	94%	17%
Fair value adjustments of compensation-related derivative instruments	(1.7)			N/A	N/A
Clearing and execution costs	73.0	26.3	30.6	178%	(14)%
Communications	65.4	35.7	39.9	84%	(11)%
Occupancy and equipment costs	74.6	43.4	42.4	72%	2%
Depreciation and amortization	21.2	10.5	11.1	101%	(5)%
Amortization of acquired intangible assets	42.3	13.9	12.2	205%	14%
Professional services	87.5	30.6	27.4	186%	12%
Interest on borrowings	94.0	2.0	2.6	4678%	(24)%
Other	45.4	22.7	17.8	100%	27%
Advertising	164.1	92.3	100.4	78%	(8)%
Fair value adjustments of investment-related derivative instruments	11.7	(8.3)	(17.9)	(241)%	(54)%
Total expenses	1,027.6	449.7	421.0	129%	7%
Income before other income and income taxes	775.9	553.5	459.1	40%	21%
Other income:					
Gain on disposal of investments	81.4			N/A	N/A

Pre-tax income	857.3	553.5	459.1	55%	21%
Provision for income taxes	330.5	213.7	176.3	55%	21%
Net income	$ 526.8	$ 339.8	$ 282.8	55%	20%
Other information:					
Number of interest days in period	364	371	364	(2)%	2%
Effective income tax rate	38.6%	38.6%	38.4%		

Note: Details may not sum to totals and subtotals due to rounding differences. Change percentages are based on non-rounded Consolidated Statements of Income amounts.

Fiscal Year Ended September 29, 2006 Compared to Fiscal Year Ended September 30, 2005

Net Revenues

Commissions and transaction fees increased 39 percent to $727.4 million, primarily due to the addition of approximately 2.25 million accounts on January 24, 2006 in the TD Waterhouse acquisition. Total trades increased 36 percent and average client trades per day increased 39 percent to 216,970 for fiscal 2006 from 155,696 for fiscal 2005. Average client trades per account were 10.1 for fiscal 2006, compared to 11.0 for fiscal 2005. The number of qualified accounts, which have historically generated the vast majority of our revenues, has increased by 87 percent since September 2005, primarily due to the acquisition of TD Waterhouse. Average commissions and transaction fees per trade increased to $13