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investment report

Ameritrade Holding Corporation (AMTD)

business overview *From Reuters.com*

Ameritrade Holding Corporation is a provider of securities brokerage services and technology-based financial services. The Company also provides trading execution and clearing services through its subsidiary, Ameritrade, Inc. Ameritrade Holding Corporation serves retail investors and business partners predominantly through online transactions. In addition to internet trading, Ameritrade Holding Corporation offers other services to its retail clients, including touch-tone trading, unlimited streaming free real-time quotes, extended trading hours, direct access, and commitment on the speed of execution.

On June 22, 2005, the company acquired from The Toronto-Dominion Bank (TD) all capital stock of TD Waterhouse Group, Inc, a wholly owned subsidiary of TD.

Ameritrade's client offerings include Ameritrade, Ameritrade Plus, Ameritrade izeone, Amerinvest, Ameritrade Advisor Services and Ameritrade Corporate Services. Its products include common and preferred stock, ETFs, option trades, mutual funds and treasury, corporate, government and municipal bonds. In addition, Ameritrade, Inc. provides self-clearing and execution services, as well as services to each of its affiliated broker-dealers and a number of correspondent firms, such as independent broker-dealers, depository institutions, registered investment advisors and financial planners. Clearing services include the confirmation, receipt, settlement, delivery and record-keeping functions involved in the processing of securities transactions.

As of December 2006, Ameritrade was overseen by its Chief Executive Officer Joseph H. Moglia and its Chairman of the Board Joe J. Ricketts. Moglia joined Ameritrade as CEO in March 2001. Prior to this position, Moglia worked for Merrill Lynch, where he ran the firm's Private Client division. Chairman of the Board Ricketts founded Ameritrade and served as the CEO prior to Moglia for twenty years, from 1981-2001.

competition

Competitor	Company Description	Implications for AMTD
ET- E*Trade	E* Trade is a global Financial Services company based in New York City serving 4.2 million customers in over 40 countries worldwide. It is an online discount stock brokerage (charges a much smaller fee on each trade, but also charges inactivity and maintenance fees) that also offers services and	Unlike Ameritrade, E*Trade charges much lower transaction fees and is thus more appealing to investors who like to engage in day-trading. E*Trade has no imminent implications for AMTD because the two have



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	products such as banking, checking, money market accounts, credit cards, certificates of deposit, and mortgages. Its subsidiaries include E*TRADE Securities LLC, E*TRADE Bank and E*TRADE Clearing LLC.	been competitors for the past ten plus years.
SCHW – Charles Schwab	Charles Schwab is the world’s second largest discount broker serving 7.5 million individual and institutional clients from 300+ offices in the United States. It provides traditional brokerage services with low commissions in addition to offering mutual funds, annuities, bond trading, and mortgages. Additionally, it depends heavily on its 5200 independent advisor firms for success.	Like E*Trade, Charles Schwab and Ameritrade have been competitors for a while, and Charles Schwab’s effect on the prosperity of Ameritrade is not likely to change in the near future.
BAC - Bank of America	Bank of America is the largest commercial bank in the United States, as well as the largest issuer of credit, debit, and prepaid cards in the world. On October 11, 2006, Bank of America introduced a new proposal to provide free online equity trading for customers with over \$25,000 in their checking accounts.	The potential threat to Ameritrade with the new policies introduced by B of A may at first glance seem alarming. It may seem that this new policy will attract would-be Ameritrade customers away to BA. However, a serious long term threat to Ameritrade by BA’s new policy is probably not likely. Ameritrade itself has tried offering free transactions to customers in the past, but found that introducing free transactions is not the best way to attract customers.

financials

income statement

At first glance, in the quarterly income statement, it appears as if profits are decreasing. However, upon examining the yearly income statement, it is evident that there has been an increase in total revenue throughout the last three years. Analyzing the data sheet, one can see that Ameritrade has devoted more funds to advertisement, and doubled in the last year the amount devoted to sales and administration. This can provide better services and attract more customers, thus yielding the higher returns. Over the last four years, most of the company’s numbers have been increasing.

From 2003-2005, Ameritrade’s net income has increased. Since commission per trade remained relatively stable over this period, the logical conclusion is that this increase in income was the result of



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more customers and, more precisely, more transactions. From 2003-2004, Ameritrade's net income more than doubled. From 2004-2005, Ameritrade's net income increased by 20%--a figure significantly lower than its previous growth. This could be an indication that the potential customer base of the market has been tapped or that Ameritrade is losing ground to competitors.

PERIOD ENDING	30-Sep-05	24-Sep-04	26-Sep-03
Total Revenue	1,003,153	921,974	731,065
Cost of Revenue	26,317	57,991	208,190
Gross Profit	976,836	863,983	522,875
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	405,712	353,994	240,025
Non Recurring	(428)	1,166	898
Others	24,408	23,224	31,708
Total Operating Expenses	-	-	-
Operating Income or Loss	547,144	485,599	250,244
Income from Continuing Operations			
Total Other Income/Expenses Net	8,315	17,930	-
Earnings Before Interest And Taxes	555,459	503,529	250,244
Interest Expense	1,967	44,442	22,887
Income Before Tax	553,492	459,087	227,357
Income Tax Expense	213,739	176,269	90,715
Minority Interest	-	-	-
Net Income From Continuing Ops	339,753	282,818	136,642
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	339,753	282,818	136,642
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	\$339,753	\$282,818	\$136,642



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balance sheet

From looking at the balance sheet, we can see that Ameritrade's cash has been declining over the past three years, but net receivables have been increasing. The increase in net receivables has outweighed the decline in cash, so total assets have increased. This could be an indication that Ameritrade has been investing its cash to improve its business and has seen an increase in revenue that outstrips its spending.

Ameritrade's balance sheet indicates the company's ability to sustain profits and not increase debt. Overall, Ameritrade's debt increased slightly in the short term, but long-term debt decreased dramatically in the last two years. Another significant change was that in tangible assets. The large increase can be a result of Ameritrade's acquisition of TD Waterhouse, as well as their overall high earnings. It is important to watch how assets will change as Ameritrade proceeds with their new buyback plan.

Assets			
Current Assets			
Cash And Cash Equivalents	7,766,423	7,939,967	8,127,044
Short Term Investments	229,819	17,950	-
Net Receivables	7,204,914	5,919,298	5,123,902
Inventory	-	-	-
Other Current Assets	-	-	-
Total Current Assets	-	-	-
Long Term Investments	68,575	73,759	91,740
Property Plant and Equipment	33,259	29,870	36,159
Goodwill	769,215	770,094	734,903
Intangible Assets	259,759	247,052	238,147
Accumulated Amortization	-	-	-
Other Assets	85,146	279,031	52,373
Deferred Long Term Asset Charges	-	-	-
Total Assets	16,417,110	15,277,021	14,404,268
Liabilities			
Current Liabilities			
Accounts Payable	14,716,813	13,910,449	13,004,267
Short/Current Long Term Debt	26,002	-	-
Other Current Liabilities	-	-	-
Total Current Liabilities	-	-	-
Long Term Debt	6,218	-	46,295
Other Liabilities	59,941	66,541	36,194
Deferred Long Term Liability Charges	89,269	89,123	81,738
Minority Interest	-	-	-
Negative Goodwill	-	-	-
Total Liabilities	14,898,243	14,066,113	13,168,494
Stockholders' Equity			
Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	4,351	4,351	4,351
Retained Earnings	652,742	312,989	58,172
Treasury Stock	(364,794)	(346,060)	(41,452)
Capital Surplus	1,184,004	1,195,218	1,188,444
Other Stockholder Equity	42,564	44,410	26,259
Total Stockholder Equity	1,518,867	1,210,908	1,235,774
Net Tangible Assets	\$489,893	\$193,762	\$262,724



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cash flows

Total cash flow from operating activities has remained steady from 2004 to 2005. Both 2004 and 2005 show a surge in cash flow from 2003. This reflects their aggressive acquisitions strategy, which increased profits greatly and led to this increase in total cash flow. However, although total cash flow from operating activities remained constant, there was an increase in net income from 2004 to 2005. A possible explanation for the miniscule change in cash flow would be the loss in profits incurred during 2005 due to the security breach. Additionally there is a noticeable increase of almost twofold in changes in accounts receivables. This is an indication of the firm's growth in attracting more clients and trades as indicated by changes in other operating activities. Simultaneously the total cash flow from investing activities has tripled from 2004 to 2005. This may reflect their plans to increase buybacks of shares with their extra profit. From observing their total cash flow from financing activities, there is a sharp decrease from 2004 to 2005. This may also be another indication of the company's plans for buying back an increasing amount of shares. Ameritrade's statement of cash flows reflects their strong growth in the past year, with an increase in profits as well as their reinvestment into the firm with their buyback plan.

PERIOD ENDING	30-Sep-05	24-Sep-04	26-Sep-03
Net Income	339,753	282,818	136,642
Operating Activities, Cash Flows Provided By or Used In			
Depreciation	24,408	23,224	31,708
Adjustments To Net Income	(2,969)	3,793	25,986
Changes In Accounts Receivables	(1,285,583)	(649,203)	(2,306,571)
Changes In Liabilities	851,050	819,007	4,346,641
Changes In Inventories	-	-	-
Changes In Other Operating Activities	403,365	(150,025)	(2,202,564)
Total Cash Flow From Operating Activities	330,024	329,614	31,842
Investing Activities, Cash Flows Provided By or Used In			
Capital Expenditures	(7,981)	(9,810)	(9,013)
Investments	(211,247)	(17,986)	-
Other Cashflows from Investing Activities	(25,909)	(56,709)	18,724
Total Cash Flows From Investing Activities	(245,137)	(84,505)	9,711
Financing Activities, Cash Flows Provided By or Used In			
Dividends Paid	-	-	-
Sale Purchase of Stock	(49,087)	(309,854)	(36,350)
Net Borrowings	(2,545)	(46,400)	9,398
Other Cash Flows from Financing Activities	-	-	35,489
Total Cash Flows From Financing Activities	(51,632)	(356,254)	8,537
Effect Of Exchange Rate Changes	417	(86)	135
Change In Cash and Cash Equivalents	\$33,672	(\$111,231)	\$50,225



valuation

Ameritrade closed at a record fourth year high with a 36% increase in profits. After its recent acquisition of TD Waterhouse, Ameritrade paid an extra \$6 dividend to stockholders. Unsurprisingly, Ameritrade has a history of aggressive acquisitions which have led to an increase in profits. Recently Ameritrade has doubled its amount of buyback shares to 32 million. This is an indicator that the company has a large amount of available cash. This reflects Ameritrade's long term growth plan, as well as its change in management. Despite the increase in profits, Ameritrade had a loss of \$4 million due to security fraud, an issue which plagues the industry as a whole.

	AMTD	Comparison to Industry	Comparison to S&P 500
PE Ratio	17.6	17.2	20.6
Price to Book	6.3	4.1	4.1
Price to Sales	6.5	4.3	2.9

Values obtained from morningstar.com

The P/E ratio aligns with those of industry and the S&P 500. A 17.3 P/E ratio could be a result of Ameritrade's strong close during the fourth quarter, which beat expectations.

The P/B ratio, which is higher than competitors' and industry's, may be a result of higher expectations and the growth of the firm. With new management plans and a new buyback plan, consumer expectations have increased.

Ameritrade's Price to Sales Ratio, which is also higher than those of the competition and of the industry, reflects their long term aggressive growth plans.

	Quarter Ended		Fiscal Year Ended	
	9/29/2006	9/25/2005	9/29/2006	9/30/2005
Total trades (in millions)	12.8	9.9	54.2	39.9
Average commissions and transaction fees per trade	\$12.76	\$13.01	\$13.41	\$13.12
Average client trades per day	204480	146254	216970	155696
Average client trades per account (annualized)	8.3	10.1	10.1	11
Activity rate	3.30%	4%	4%	4.30%
Trading days	62.5	68	250	256.5
Total Accounts (Beginning of Period)	6139000	3689000	3717000	3520000
Total Accounts (End of Period)	6191000	3717000	6191000	3717000
Percentage Change	1%	1%	67%	6%



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It is clear that the average commissions and transaction fees per trade have increased from \$13.12 in 2005 to \$13.41 in 2006. This increase in revenue correlates with the increase in average client trades per day. Additionally, the decrease in average client trades per account but increase in average revenue per trade suggests a strong growth in the number of total accounts. The expansion of its client base has coincided with its consistent increase in DARTs. Although TD Ameritrade experienced a \$4 million loss in profit due to security fraud last quarter, the strong increase in revenue per trade and total accounts opened have outweighed their loss. Furthermore TD Ameritrade's expanded buyback plan coincides with their excess cash and increase in profits.



investment opportunities

well-known brand

Ameritrade has maintained its fixed price to all customers, which alleviates confusion. Ameritrade is already one of the most well-known online brokers, which helps attract independent-minded investors and traders. In April 2006, it launched a new advertising campaign, "The Independent Spirit" which aims to create awareness of the company's services for long-term investors. We believe the campaign has been relatively successful due to above-average growth during the launch of the campaign.

successful management

Ameritrade's management team is led by CEO Joe Moglia, who refocused the company on its core competencies. Under the management that arrived in 2001, TD Ameritrade has grown ten-fold. On November 7, 2006, three new members were elected to its board of directors: Mark L. Mitchell, Allan



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R. Tessler, and William H. Hatanaka, all of whom have a strong background in the industry. The team is focusing on ridding non-U.S. areas of UK, South America, Germany and India, downsizing by eliminating failed product offerings and personnel, and focusing on the self-directed retail investor.

attracts active and long-term investors

Ameritrade's full integration with its acquired TD Waterhouse will transform Ameritrade from focusing mostly on online trading to also specializing in long-term investment and Registered Investment Advisor business. Despite the costs associated with the new branch office franchise, we expect that Ameritrade's utilization of technology and its relationship with TD Bank will keep Ameritrade's margins high.

stock market sensitive

Ameritrade has more trading reliance than other companies in terms of how it responds to the movement of the stock market. Although this may lead to more volatility, it also leads to scalability in a rising stock market. However, its sensitivity to the stock market is also considered as a risk.

technologically driven

Among other online companies, Ameritrade is the most efficient, generating \$533,000 per full-time employee, compared to \$520,000 at E*Trade and \$373,000 at Charles Schwab. Its focus on technology has generated a low-cost and scalable platform. The management believes that the firm can get back above the 50% pretax margin level that it maintained prior to the acquisition of TD Waterhouse.

investment risks

security issues

Ameritrade is an online business, so security is an important issue. The problem of identity theft is industry-wide. Ameritrade offers a full guarantee against identity theft and the company's systems have never been hacked. In October, Ameritrade took a \$4 million charge in the fourth quarter because of identity-theft fraud. The fraud occurred overseas, as is common in the industry. Hackers got investors' information while they were using unsecured wireless connections abroad. Ameritrade reimbursed the losses, but has yet to publicize a clear plan regarding how it will enhance its security features.

Bank of America's introduction of \$0 equity trades

On October 11, 2006, Bank of America introduced free transactions for customers with over \$25,000 in their accounts. The announcement "sent shares of several online brokers, most notably Ameritrade, spiraling into a free fall, as investors were nervous that the initiative would spark a fresh round of price-cutting. Shares of Ameritrade plunged 12%. Also hard hit by Bank of America's free stock-trading plan were shares of E*Trade, which dropped 8.8%, and Charles Schwab, which fell 4.7%." (thetstreet.com) However, Ameritrade's stock has since rebounded. Bank of America was not the first to introduce \$0 trades—according to a company representative, Ameritrade has tried it in the past. Ameritrade and some of its competitors have indicated that introducing free transactions is not the best way to attract customers and that adding more value for a higher price is a more successful long-term strategy.



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falling commissions

As the Bank of America move indicates, commission prices are on a decline. Commission per trade has steadily declined. In 1998, net revenue per trade was \$28.98 (Source: Ameritrade's 2002 10-K report). From 2003 to 2005, average commissions and clearing fees per trade hovered just above \$13 – in 2005 it was \$13.21. (Source: Ameritrade's 2005 10-K report). Today, Ameritrade charges \$9.99 per trade. This figure could continue to feel downward pressure as competition to win clients increases. As commissions fall lower, profits will decrease and this could hurt Ameritrade's stock.

merger with TD Waterhouse

There is always risk associated with a merger, and Ameritrade has acquired many companies in its history. In the announcement of Ameritrade's merger and acquisition of TD Waterhouse, Ameritrade's CEO, Joe Moglia, pointed out that the problem with mergers lies in the integration of the two companies involved. He also noted that 75% of most mergers end up failing in the June 22 conference call announcing the merger. The good news for Ameritrade is that in the three years prior to its merger and acquisition of TD Waterhouse, it had completed all seven of its integrations successfully. However, this is its largest merger and it is not yet complete.



full financial statements

income statement

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statement of cash flows

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