AMERITRADE HOLDING CORP
Form DEFA14A
June 23, 2005

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AMERITRADE HOLDING CORPORATION

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Filed by Ameritrade Holding Corporation Pursuant to
Rule 14a-12 under the Securities Exchange Act of 1934
Subject Company: Ameritrade Holding Corporation
Commission File No.: 000-49992

This filing consists of the transcript of the joint investor conference call held on June 22, 2005 by Ameritrade Holding Corporation and TD Waterhouse U.S.A.

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P R E S E N T A T I O N

Operator

Good afternoon, ladies and gentlemen. My name is Paul, and I will be your conference facilitator today. At this time I would like to welcome everyone to Ameritrade Holding Company s corporate announcement. (OPERATOR INSTRUCTIONS). I would now like to turn the conference over to Ms. Donna Kush. Please go ahead, ma am.

Donna Kush

Thank you, Paul, and good afternoon, everyone, and thank you for joining us. I would like to ensure that all listeners are aware that there will be two calls this afternoon. The first call will be hosted by Ameritrade and is expected to last approximately one hour and will include a question-and-answer session. Once we have answered your questions and completed our closing remarks, the operator will inform you that the first call is completed.

After a five-minute break, we will begin the second call hosted by TD Bank Financial Group for its shareholders and analysts. Participants of the Ameritrade call are welcome to remain on the line for the second call.

By now you should have received the copy of our for press release that was faxed or e-mailed to you. If you have not, please call our Investor Relations Department and we will fax or e-mail one to you immediately. Otherwise, you can view a copy of our release and slides, listen to the call and submit any questions to us via our website at amtd.com.

Also, if you want to contact us directly after the conference call, please call Investor Relations at 800-237-8692, or for media inquiries, contact Corporate Communications at 800-400-1336.

Before we begin, I would like to note that this call contains forward-looking statements that are made pursuant to the Safe Harbor provisions of the Federal Securities laws. For this purpose, any statements made that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, anticipates, plans, expects, and similar expressions are intended to identify forward-looking statements. There are a number of the important factors that could cause the Company s actual results to differ materially from those indicated by such forward-looking statements, including factors set forth in our most recent 10-K and 10-Q filings with the SEC and in the press release that we issued this morning. We specifically disclaim any obligation to update our forward-looking statements even if our estimates change.

Please note that this call is intended for investors and analysts and may not be reproduced in the media in whole or in part without the prior consent of Ameritrade.

At this time I will turn the call over to Ameritrade s CEO Joe Moglia will be followed by Ameritrade s CFO Randy MacDonald, and then Ed Clark, the President and CEO of TD Bank Financial Group. Joe?

Joe Moglia

Thank you, Donna, and welcome everybody to our call. You know at the first analyst meeting that I hosted when I got to Ameritrade in the fall of 2001, I talked about that ultimately Ameritrade would move toward a client segmentation strategy that addressed the needs of the long-term investor. Well, today we are actually realizing that dream.

The new TD Ameritrade we believe is absolutely the best combination for our clients and our shareholders. First, let s take a look at it strategically.

It only enhances the position that we already have in the active trader space, and it immediately puts us into the segment where the long-term investor exists, and it makes us a player in the advisor market.

Besides that, we will develop a strategic and business relationship with TD Bank which has a 150-year-old tradition. We will be able to get most of the benefits from the bank, but yet have minimal costs and minimal risks that are associated with the banking business. From a financial perspective, we believe we are going to deliver superior returns. We are expecting growth synergies of $578 million, and if you assume full synergy realization and combine that with the last 12 months as of March, 2005, there will be 39% EPS accretion, the combined adjusted revenue will be about 1.8 billion, combined adjusted net income around 557 million, but I think even more than that, as we shift our revenue mix to more of an asset-based driven approach, we think over time that will command a higher multiple in the marketplace.

Now when you look at our execution risk, I think most of you know that 75% of most mergers wind up failing. The single most significant reason why that happens is because companies fail on the integration. In the last three years, we have done seven integrations. We are seven and 0 in the execution of those integrations, and we absolutely plan on continuing that undefeated streak.

Now if you look at the right hand side of the slide, you know I think intuitively intuitively when you add branches, you add investment centers, you add a long-term investor business, add the RIA business, you would automatically assume your margins would go down. In this case, our margins will ultimately go up.

Now the next slide, frankly, it is simple, and I love this slide, and that is probably the reason why I love it. I cannot articulate better than the picture that actually exists in this diagram.

TD Ameritrade can now provide whatever the individual investor needs. Anything from a do-it-yourself online experience to branches and advisors for people who want help in managing their own money. Where we are strong, we are now going to be stronger. So in the active trader space, all we are doing is adding significant scale. That should go right through our pretax line.

Where we wanted to participate we are now going to be real players. You know we talked about Amerivest now for a while, and we love that as a product. But Amerivest combined with the long-term investor business that already exists takes us significantly ahead of where we could have been without that.

When you look at our RIA business, it s a nice little business. But combined with TD Waterhouse, we become the number three player in the advisor business in this country.

Now let me take you through the next bubble chart. If you look at the graph, if you look at the two axis, they basically consist of the pretax margin and pretax income. The actual size of the bubble represents the PE of that individual company.

Now we believe by maintaining our margins and even growing our margins and delivering sustainable profitable growth, plus getting into the asset gathering business, plus gaining most of the benefits of a bank with minimal cost and risk associated with that, we will ultimately expand our multiple. That is the point of this bubble chart.

Now the next slide basically gives you a summary of the transaction terms. What we are looking at is a 68/32% deal. There will be a $6 a share dividend to be paid to Ameritrade shareholders. $5 of that will be funded by borrowings and excess cash or excess liquidity that already exists at Ameritrade, and $1 a share will be funded through excess capital at TD Waterhouse USA. That is a $2.4 billion dividend that is getting paid to our shareholders. Ameritrade Canada will be sold to TD Bank for $60 million. TD Bank will tender an additional 7.9% of their shares immediately after closing at $16 a share ex- dividend. TD Bank will be limited to ownership of no more than 39.9% of the outstanding shares for the next three years for the three years after closing and no more than 45% of the outstanding shares in years four through 10 unless they tender for 100% of all the outstanding shares and receive approval by the unaffiliated directors and shareholders. Joe Ricketts may also participate in a tender offer to take their ownership up to 29%.

The makeup of the board will consist of 12 members. There will be five TD Bank representatives, including Ed Clark, the CEO of TD Bank who will be Vice Chairman of TD Ameritrade. There will be three Ricketts family representatives, including Chairman Joe Ricketts and Peter Ricketts will now be promoted to President of TD Ameritrade. There will be three independent representatives selected prior to the close, and I as CEO will also be on the board. We would expect normal approvals from the regulators as well as Ameritrade shareholders.

With regards to the timing, we would expect that closing should take place comfortably within six months, and we would expect with regards to the synergies that all of those will be realized six quarters after the close.

Now the next slide just highlights what some of the combined metrics would look like as of the end of the March quarter. We will be doing about 240,000 trades per day. We would have around a little over $7 billion in prior margin balances. A little over $34 billion in client cash balances. That is about 16% of client assets. We will be doubling I m sorry we will be almost doubling the number of qualified accounts we have to a little over 3.2 million, and our overall account base will be a little over 5.9 million. Client assets at Ameritrade will now be about $220 billion, and clearly we are significantly extending our RIA relationships, and we now have a full-scale branch network.

To help you walk through the numbers, let me turn it over to Randy MacDonald, our CFO.

Randy MacDonald

Let s turn to the next slide, and it is titled Combined Results with Full Synergy Realization, page eight. And what you have here are the historical financials for the last 12 months ended March 2005 for Ameritrade adjusted, which is to remove Canada because it is being sold to TD Canada for 60 million and then TD Waterhouse USA. That means the new company is TD Ameritrade, and that is before we count any synergies. That entity would have 1.6 billion in revenues and also have one of the best pretax margins in the industry of 33%.

Now for purposes of this analysis, full synergies are that we are going to assume all revenue opportunities and expense synergies are realized on day one. So growth synergies are revenue opportunities from bank suites of 200 million, operating expense savings of 328 million, plus advertising savings of another 50 million. So these growth synergies total 578 million.

Now I will go through the details of each of these on the next couple of slides. We also included four adjustments to the growth synergies of 578 million. The first is attrition, which is assumed to be equal to an extra 5% of the retail revenues of TD Waterhouse USA for just the first year, and that would be 27 million.

The next is the intangible asset, which is assumed to amortize over a 20-year period. The assets assumed to be the same percentage of the deal price as was recorded in the Datek deal, about 32% or $42 million, and that is net of the assets acquired.

We will also be inheriting a fully built out branch network of physical locations. Therefore, we have assumed no cost to build this out. So that gets us to net synergies of 509 million. And finally, we are assuming a borrowing of $2 billion, so we would incur interest expense of 120 million. That is when the pretax margins move to 52%.

So assuming full realization of synergies, TD Ameritrade would have 1.8 billion in revenues, produced 557 million in net income, $0.92 in EPS, and be 39% accretive to EPS of Ameritrade adjusted for the last 12 months.

Now let me go back and explain the borrowing. We planned to pay out a dividend of 2.4 billion, and TD is contributing 400 million. So to be conservative, we re just assuming the rest is 2 billion in borrowings. So this is not including the liquid assets that we have today of 283 million, nor does it include the 60 million that we planned to get on the proceeds of the sale from Canada.

So now let s go to the next slide, which is titled Revenue Opportunities, page nine. And we have three philosophies on our revenue opportunities. The first is that we plan to accelerate the Ameritrade Bank strategy by renting the capital and the expertise of a 150-year-old bank. Now our strategy for obtaining these revenue opportunities involves much lower risk than being in the banking business, and all the yields that you see on this slide are consistent with the bank s service level agreement with TD s Bank.

Next, the philosophy of the portfolio we are running is an investment portfolio, and it is not a lending portfolio. So we will have minimal credit risk.

Third, we are extending out the portfolio in duration to two years. That is to match the estimated duration of our core deposits. So this means there is no gap in the lives of the assets and the liabilities. So that means we save the cost of hedging such GAAP risks and minimizing interest rate risks.

Now there are four major asset types that make up the revenue opportunities. The first one is 13 billion in money market funds. Now currently we earn a concession fee of approximately 80 basis points on these balances. So there is opportunity to move approximately 15% of the balances or about 2 billion from the money market fund to an FDIC product. That would earn a net spread of 285 basis points, so that is a pickup of 205 basis points. This nets in revenue opportunities of 41 million annually.

Next is 9 billion in MMDA. TD has been successful at moving over 2.5 billion from the money market fund to the FDIC insured deposits over the last couple of years. The existing FDIC product is currently yielding 2.81% and paying the customers 96 basis points. So by extending 85% of the portfolio to two years to match the estimated life of deposits, the new yields is 3.81%. We assume the same cost for client payments, so that means we are earning an extra 100 basis points on approximately 7.8 billion, and so this will yield an extra 78 million.

Third, we have 6.2 billion in free credits. We will extend the maturity of 85% of that portfolio, approximately 5.3 billion, also to two years to match the deposit life, and yield pickup there is 144 basis points and that is for an extra 76 million.

And lastly, we have 7.3 billion in margin debt. The over 7 billion in margin lending done by the combined companies creates a securities lending box that approximates 10 billion of lendable securities. The combined Company will be able to leverage its strong stock loan business to pick up about 50 extra basis points on about 1 billion of securities, and that is a revenue opportunity of about 5 million.

Now unlike our expense synergies which are onetime, these are growing and continuing opportunities and can be positively impacted by rising interest rates. And just as important to note, these opportunities are based on only approximately 40% or 15 billion of the 36 billion in investment earning assets.

So let s go to the next slide, slide 10, which is titled Expense Synergies slide. Now with our acquisitions of NDB and Datek, plus five other acquisitions, we have a management team with a proven track record for successful integrations. Part of our due diligence process is to develop the hypotheses by which our management team would execute the integration. The team has spent many hard hours in due diligence, and they feel good about this opportunity. We plan to realize the equivalent of 59% of TD Waterhouse USA s last 12 months in expenses.

So beginning on the left side of the slide are the Ameritrade expenses for the last 12 months ended March of 433 million. Next to that are TD Waterhouse USA s last 12 months expenses of 643 million. So the combined Company would have an expense load of just under 1.1 billion. The synergy column is the full amount of expense synergies we expect to realize once we get to an ongoing expense load of 698 million.

Now our plans include picking the best people, products, system and processes. As with all of our integrations, we will have four main objectives. We have worked really hard to acquire our clients, and we want to retain all of them, so client retention is our number one goal.

Second is to realize all the synergies within six quarters. Third is to come out the other end of this journey with operational excellence. That is to have more streamlined processes including greater capacity, flexibility, reliability and scalability. And lastly, woven throughout all of these objectives is our commitment to associates of both companies that we will communicate openly and frequently and that we will continue to treat each of them fairly, equitably and with respect.

Now at this point let me turn the call over to Ed Clark, President and CEO of TD Bank Financial Group, and my new best friend.

Ed Clark

Thank you, Randy. As you know, we re going to have our own call to focus on how this transaction impacts the TD Bank Financial Group right after we finish the Ameritrade call. So I m not going to take up a lot of time on this call talking about the TD Bank.

But I think it is important to spend a minute to focus in on what we have achieved with this deal. If there is one thing that everybody has been able to agree on in the online brokerage business it is that there is strong pressure to consolidate. Neither of us needed to do a deal. We both wanted to do the right deal financially as well as strategically.

This deal generates immediate benefits available in any consolidation play. A 39% accretion for the Ameritrade shareholders and an immediate $6 dividend. But it is also about a strategic combination available only with these two companies, a company with long-term growth potential to add further value for the shareholders.

Joe and I shared a view on how this can be achieved. We wanted a combined entity that was focused on wealth management. We wanted an entity that would have a great currency, a higher PE and an ability to make future acquisitions. But we also wanted a company that was able to fully serve a full-spectrum of the investors from the active trader to the long-term investor. Ameritrade owns the active trader space and has a best-in-class online trading platform. But it recognized that it needed to attract the long-term investor and expand its asset gathering capabilities. These are the areas of strength that TD Waterhouse and TD Waterhouse alone could bring to Ameritrade serving the long-term investor directly and through the independent financial advisors, our extensive branch network and our strong marketing and product suite. Combining these two strong complementary franchises creates an industry powerhouse.

Finally, to be a winner in this space in the long-term, you need to have the best management team. This transaction builds upon the strength of Ameritrade s proven leadership team, with the focused strength of TD Waterhouse management and creates the best management team in the industry. The Ameritrade leadership team has a proven track record in consolidation. To me when you are consolidating two companies in a consolidated industry, you want to go with a management team that has a set of successful mergers under their belt. That is Joe Moglia s team. They are the ones with the knowledge, experience and judgment to make it work. Execution matters.

TD Ameritrade is a powerful combination and will be an unbelievably strong competitor going forward. This transaction and the position that TD Ameritrade will hold in the marketplace will generate enormous value for the Ameritrade shareholders. It is also an excellent deal both financially and strategically for TD shareholders. In the long-term, as a major shareholder, our interests will be aligned with all the TD Ameritrade shareholders in driving for significant shareholder value. We are very excited by the future, and we see unbelievable potential for future acquisitions. This deal solidifies our two distinct areas of focus in the United States, online brokerage through TD Ameritrade and retail commercial banking from TD Bank.

You can listen in on our call if you would like to hear more about the transaction from TD s perspective. Thank you and back to Joe.

Joe Moglia

You know, folks, any deal we could have done would have had excellent synergies and would have had excellent profitability. But the TD Ameritrade deal specifically was the only one that rounded out our client segmentation strategy, that gets us into the long-term investor space, makes us the number three player in the United States in the advisor business, gives us a full-scale branch system, gives us investment centers, gives us a strategic relationship with TD Bank where we get most of the benefits of the bank with minimal costs and risks associated with that. It puts us into the asset gathering business, and as I said before, that combined with the maintenance and the growth of our margins, as well as delivering sustainable profitable growth over time, we believe should expand our multiple.

Now you have heard me say this again and again, that we will do we will at least aggressively work to try to do any deal that ultimately is a real benefit long-term for our clients and our shareholders. We just did that. Don t assume, however, that consolidation for the industry is over, and don t assume that it is over for Ameritrade.

Now on a personal note, as far as I go, there have been a lot of questions as to what is going to happen to me over the span of the last year and a half. Well, that is speculation should be over now. I could not be more excited or proud to stay on as CEO of TD Ameritrade.

With that, let me open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Rich Repetto, Sandler O Neil.

Rich Repetto

(multiple speakers). First, congratulations on the deal. The first question is, can you spell out the lockup agreement? Is there a lockup agreement, and could you spell out what it is between yourselves and TD?

Joe Moglia

Yes, there is a shareholder s agreement, so there is a commitment to both the shares. But there is an opportunity for the board to change their minds, if, in fact, the independent committee of the board comes to a view that there is clearly a superior offer to what we have on the table.

Rich Repetto

Okay. And then could you outline who is on the independent committee, and then is there a breakup fee?

Joe Moglia

There is a small breakup fee. Mark Mitchell has been the Chairman, Dan Cooke (ph)

Randy MacDonald

Michael Fleischer (ph).

Joe Moglia

Michael Fleischer.

Rich Repetto

So they are the only ones that evaluate if there was a superior offer out there?

Joe Moglia

Yes.

Rich Repetto

Okay. Second question is, Joe and Ed, you have talked about significant synergies much more higher than the market I think was anticipating for an Ameritrade TD Waterhouse combination. On the bank side, do you foresee any issues in regards to regulators? Have we walked through this process to get the 200 million good hunk of your over 500 million in synergies through blank regulators?

Joe Moglia

We have spent hours and hours and hours on this, and everything is very much coordinated, and we don t anticipate any issues or problems.

Ed Clark

There is already an agreement between TD Waterhouse Bank and TD Waterhouse Brokerage, and we are really taking out that arrangement to (technical difficulty) now to TD Ameritrade.

Rich Repetto

Okay, great. But if you look historically at what you did with TD Waterhouse Bank prior at least to what showed up in their first filings in the U.S., the spreads you know you did not have you had yields much less and spreads much less. Was that carried on your balance sheet prior?

In other words, we have looked at the way TD Waterhouse Bank in the U.S. when they filed the thrift reports, they were much smaller yields and much smaller margins overall. So are we doing anything just saying that we have already done that, and I am just trying to see where that showed up prior?

Ed Clark

Because what you are looking at is what the spread that is left in the TD Waterhouse Bank after the spread has the service agreement with TD Waterhouse, and so those profits are showing up under TD Waterhouse.

Rich Repetto

Okay. So (multiple speakers)

Ed Clark

The profits we are seeing here that will now show up in TD Ameritrade.

Rich Repetto

Understood, okay. Okay. Next, Joe, you know the significant savings looked like they are in comp and (inaudible) and in another. I was just trying to get a feel for how many branches when you go to I know you have thought about it for a while now so how do you rationalize the branch structure? How do you think about people in that comp and (inaudible) business, the significant hunk of these expense synergies are there? So any color on the comp, and then this other line has 60 million or so in expense savings there as well?

Joe Moglia

I think, Rich, the bottom line is, you know as we move forward over the span of the next several months, we are going to go back to our postulates and our old principles. All the resources at TD Ameritrade are meant to exist for the benefit of our clients and our shareholders. Where those resources are not doing that, they will be redeployed in a way that does. If there are resources that are redundant, they will be eliminated.

With regard specifically to the branch structure, we have said all along that building out our own branch system is one thing. Inheriting one is yet another, and that the potential advantage to the branch system for us going forward would be a nicely rounded out our long-term investor strategy.

So going forward what we have not yet made final decisions as to exactly what we re going to do on that. But as we have in the past, at each of our earnings calls going forward, we will give you an update, Rich, as to exactly where we stand then. But it is difficult to give you too much detail on that if a), final decision has not been made, or b), more importantly, those decisions have not been communicated to our people. (technical difficulty)

Operator

Ladies and gentlemen, we are experiencing some technical difficulties. Please continue standing by. The conference will resume in just a moment.

Joe Moglia

Hey, folks. Rich, can you hear me?

Operator

Mr. Moglia, you are back in the main conference. Please resume whenever you are ready.

Joe Moglia

Well, we are ready to resume. Rich, did you get the entire answer there? (multiple speakers). Okay. Operator, who is the next ?

Operator

Mike Vinciquerra, Raymond James.

Mike Vinciquerra

Listen, I wanted to ask one thing. First of all, the first thing you did when you came into Ameritrade a couple of years ago was that you completely cleaned up the balance sheet and got rid of all the debt. I wanted to make sure that you had all the cash flow you needed. So help us understand the leveraging of the balance sheet here? Why it is necessary? It seems like maybe one of the reasons is to free up cash for TD to make the tender offer that they are looking at, and I don t know if that is the main reason, but if you could share some thoughts there?

Ed Clark

Maybe I will just address that note. None of the leverage is going for our tender offer. We are supplying the cash 100% for the tender offer.

Joe Moglia

And that is as far as the tender offer goes. The leverage a good part of that leverage, though, in fact, 100% of that leverage would be used for a payment of the dividend to our shareholders, to our current shareholders as of the record date.

Keep in mind there have been a lot of questions over the span of the last couple of years. There is, what is the right capital structure? To what extent does it make sense to be levered. And we said all along that that was something we were looking at.

Keep in mind also that this deal will be throwing off an incredible amount of cash, and what we wanted to do was lever the company to an extent in an effort to be able to reward our current shareholders with some of that opportunity.

Mike Vinciquerra

Have you received requests from shareholders over time, Joe, to potentially increase the cash going to them because it seems like most folks have been happy with your efforts to use the cash to buy back stock and kind of go at it that way?

Joe Moglia

I think that is accurate. Most people have been happy with regards to buying back with us buying back our stock. Remember that the real appreciation in our stock will ultimately come after we have delivered on the synergies and where we stand at that particular point in time, number one. We would assume, and if you run the math, with the amount of cash that we generate, there is a reasonable chance that within a couple of years we will have paid off the vast majority of that debt. So that would certainly allow us to use the cash for different reasons then. We thought this was a nice way to be able to reward our shareholders at this particular point in time, and we are very comfortable with about 30% debt on our balance sheet.

Mike Vinciquerra

Okay, very good. That makes sense. And then, Randy, just on the 7% cost you are assuming, what indications have you gotten? Like how far out are you going on the curve with that debt offering and where did you is 7% comfortable or is that conservative in your mind?

Randy MacDonald

That is comfortable. It is after consultation with the investment bankers.

Mike Vinciquerra

Okay. And then just one other question if I could. I m just trying to understand order execution. I believe that if I m not wrong that TD Waterhouse did internalize at least on the NASDAQ side roughly 30, 35% of its order flow. The rest of it, the majority going to Knight. Can you help us understand how this will affect where you send your orders? Will you be able to internalize any, or is the market-making operation not coming with this transaction?

Ed Clark

No, the market-making operation, Mike, is part of the transaction, but that will be one of the decisions that we will be looking at carefully over the span of the next several months. Remember we have only got one objective. What is the best possible thing we can do for our shareholders and our clients, and that is how we will look at that.

Mike Vinciquerra

Okay. So net net you really have not factored into your synergies a potential to gain further benefits from the order flow that you guys will have as a combined company?

Joe Moglia

Very little.

Mike Vinciquerra

Great. Thank you, guys.

Operator

Bill Panona (ph), J.P. Morgan.

Bill Panona

I guess with your last closing comments there in terms of succession, we don t have to worry about you not staying on past September? Is that right?

Joe Moglia

That is correct.

Bill Panona

Okay. And then in terms of timing for this deal, as well as what you suspect the dividend will be?

Joe Moglia

Well, we are announcing it today. We are certainly optimistic that we should be able to comfortably close no later than six months from now. We are comfortable with regards to the integration. We can deliver on the full synergy realization within a year and a half, and as far as the dividend goes, there will be a $6 dividend that will be paid to Ameritrade shareholders of record prior to the close, ex- dividend.

Bill Panona

Okay. That is helpful. And then in terms of additional revenue synergies, I mean looking at what you had spelled out there, it looks like you re being pretty conservative as it stands with the money market funds, only assuming 15% conversion rate there. Is there any reason why you are so low in terms of that assumption, and am I right in assuming that there could be an additional 250 million of additional revenue synergies if you could convert that a whole lot?

Joe Moglia

I m not sure if you should start to make those conversions right now. Understand that when Randy walked through the synergies, as well as the revenue opportunities, he said that this is something we very much believe we can deliver on. And frankly, as we dig deeper and as we work more closely with our new colleagues, we will make those decisions. But we re not prepared to commit to that yet.

Bill Panona

Okay. That is fair enough. And then just lastly, in terms of pricing, obviously I think TD Waterhouse has a little bit of a different pricing structure. I wanted to know what your pricing structure is going to be of this combined entity? And is that also factored into some of these revenue synergies if you are looking on changing pricing?

Joe Moglia

Number one, one of the things that is really sacrosanct in the regulator s mind is that there can be no discussion of pricing between ourselves and TD Waterhouse USA until we actually close, number one.

Number two, as we talk about pricing in general, remember we have talked about the approach that we will have will be our client segmentation strategy, different value propositions to different types of clients. So that still needs to be worked out, and we are prohibited from having those types of discussions with TD Waterhouse until, indeed, after the deal closes. But no incremental revenue opportunities were included in this as far as pricing goes.

Operator

Rich Repetto, Sandler O Neil.

Rich Repetto

Can you hear me?

Joe Moglia

Yes, Rich, did you get all of our answer last time?

Rich Repetto

No, I did not. I thought you cut me off. (multiple speakers)

Joe Moglia

Why don t you just what is it that you still need for us to answer?

Rich Repetto

Just a follow-up on the special board committee that will evaluate a superior bid. That just evaluates whether you need to relook at it. The full board would still need to approve any let s just say if there was a competitive bid, is that correct?

Ed Clark

Yes, that is correct. (inaudible)

Rich Repetto

Okay. And then actually the question was more on the expense side. On the other, you know you ve got a hunk of maybe Randy can answer it but 65 million in other coming on. I m just trying to figure out what ballpark that would be in general?

Randy MacDonald

Yes, there is a number of things that go in there, but a large component of that is the capital markets business.

Rich Repetto

Okay. Okay. And then very last question would be so just to go through the mechanics of this, the $6 special dividend gets paid to Ameritrade shareholders right at close, and then the stock trades down or trades ex- dividend, and then you commence Ed s tender offer or Joe Ricketts tender offer post that. Is that the way that this works?

Ed Clark

I think I always put it in simplest terms for those shares that get tendered into the tender offer effectively the total price is $22. $6 dividend, plus $16 price for the shares.

Rich Repetto Okay, so yes I get it. So they will get awarded the $6 dividend and then ?

Ed Clark

Turnaround and tender into our share offer of $16 after the dividend.

Rich Repetto

Understood. I think that is all I have.

Joe Moglia

Rich, I apologize about that before. I swear that we did not do that intentionally.

Rich Repetto

I thought you would take a route of swearing at me in Italian or something rather than cut me off. But that is okay.

Joe Moglia

(Speaks Italian language). Chiao, Rich!

Operator

David Trone, Fox-Pitt Kelton.

David Trone

Good afternoon. A couple of questions. Number one, what is your assumption for customer attrition?

David Trone

It is the same attrition that we have always experienced, plus the same attrition that has that TD Waterhouse USA has experienced. Plus on top of that, we added an incremental 5% to TD Waterhouse USA clients for the first year.

David Trone

Okay. Thank you. And you made some pretty bold comments about your desire to acquire in the future. I wonder how quickly do you think you would be able to do something let s just say, coincidentally half your size? And also wouldn t the $6 cash, giving up the $6 cash, wouldn t that kind of run counter to that strategy?

Joe Moglia Okay, number one, just in terms of acquisition philosophy going forward, all I was trying to say is that that has not changed with regards to our strategy or our philosophy. The one number one objective obviously is for us to be able to deliver on the integration, but as we look at opportunities down the road, if we believe they are in the best interests of our shareholders and our clients, we will look hard to be able to do that. I just did not want anybody to think that we were all of a sudden out of the consolidation game, number one.

Number two, the ability, the $6 dividend is not going to have any impact on that other than the fact that if there were a smaller acquisition that we could have made, well, now we may not have available cash for that. But that would be the only difference. And not having available cash in the past has not prevented us from doing an acquisition that we thought made sense.

David Trone

So to try the question again, how quickly do you think you would be prepared to make an acquisition of meaningful size?

Joe Moglia

Right. It is almost impossible to answer that. So I would   I cannot give you a specific answer on that one.

David Trone

If you had to choose between six months and a year and a half, which would it be?

Joe Moglia

David, you are being really, really, really tough on me here.

David Trone

That is all right. Okay. Joe, just to be clear, there is no nondisclosed contract of any sort that has a finite end for your CEO position?

Joe Moglia

Correct.

David Trone

It is completely open-ended? Okay. And one more question and I apologize if this is in the material and I just did not catch it. The Ricketts family gets capped at 29%. What will it be starting out?

Joe Moglia

Well, they will be approximately 19% and change.

David Trone

Okay. Thanks again and congrats.

Joe Moglia

Matt Snelling (ph), Friedman Billings Ramsey.

Matt Snelling

I was just wondering if you could give us a little color on the revenue breakout with TD Waterhouse, how much is coming from commissions, how much coming from CEs, how much coming from spread?

Randy MacDonald

Yes, we are going to probably post that on the website for everyone to see. We decided not to do that on this call, but to put it out there in the same format that we do for ourselves, so we will show the balances and the rates.

Matt Snelling

Yes, well, that would be helpful. And just to be clear, your revenue synergy number does not include a potential price cut or a segment?

Randy MacDonald

Well, we have revenue attrition which contemplates some of that.

Matt Snelling

Right but not a direct reduction?

Joe Moglia

(multiple speakers). That is correct.

Randy MacDonald

That is there. Joe answered the question earlier, but I think that I would encourage him to talk, too, about what we can talk about is the spectrum of the business and you know there is we have anything from do-it-yourself completely online all the way through to handholding in a branch with advice. And I don t think those are all going to be at the exact same price point.

Matt Snelling

No, I understand.

Randy MacDonald

Yes. So we have contemplated it (multiple speakers) and I think it s going to be within the revenue attrition line.

Matt Snelling

Okay and I apologize if I missed this earlier, but are you not closing any of the branches down?

Joe Moglia

We have not made that decision yet. We will be evaluating that over the span of the next several months. We will be looking at the profitability of each bank I m sorry each branch and how it is handled, etc, but those decisions have not been reached yet.

Now remember a caution to all of you as we go through this, because something similar did happen with Datek. Our number one priority is obviously to deliver to our shareholders and to take care of our clients. That is what we want to try to do. But we cannot do either one of those without taking care of our employees and our associates. It is absolutely paramount for us that those internal communications take place first before we expose that to the street.

So that is why we have always done I think a good job of updating you every earnings call, but we cannot give you too much of a forward picture if a), a final decision has not been reached or has not been communicated internally. And I need you all to work with me a little bit on that one.

Matt Snelling

Okay. But, Joe, your expense numbers, do they include any assumptions of branch closures?

Joe Moglia

The answer is yes.

Matt Snelling

Okay, I will leave it there.

Joe Moglia

Clearly, Matt, we re not getting into the specifics. Some, I m not suggesting all.

Matt Snelling

I understand.

Joe Moglia

Okay, right.

Operator

Jim Maga (ph), Millennia Partners.

Jim Maga

Congratulations, Joe. It s a great deal for shareholders.

Joe Moglia

Thanks, Jim. I appreciate it.

Jim Maga

I do want to ask you guys a couple of nitpicky questions on numbers if that s okay if Randy is still in the room.

Joe Moglia

Randy is in the room.

Jim Maga

Okay good. Number one, on the slideshow, I m going to the slideshow for August. So on the slideshow, the interest on borrowings, page eight, should that read 140 million in order for it to tie to the footnote five?

Randy MacDonald

That is a good question. No because we are assuming that some of the debt is paid down over the year.

Jim Maga

Okay. All right. That is a good clarification. Then I need to ask you guys about the timing of the cost savings.

Joe Moglia

We have that in footnote number two on that same page. So in the first year we would expect to have 40% achievement. At the end of year two or in year two 90%, so that means certainly by the sixth quarter, which would be the midpoint of the second year, we would be at 100%. So that means the third year is 100%.

Jim Maga

What does that mean, though, relative to the calendar, you guys? That is what I m trying to figure out.

Randy MacDonald

Well, that would be from the time the gun went off, so from the time of close.

Jim Maga

From the time of close. So if you close just for the sake of argument, if you close at 12/31, year one is going to be 2006?

Randy MacDonald

Yes. Well, yes. I m going to qualify my answer by saying we are a September year-end company, but that would be the calendar year. Correct. So 40% in 06 achievement of synergies.

Jim Maga

So if I m looking at this correctly, you are going to have 578 million of synergies to add to your combined to add to your combined pretax of 540, but the 578, you only take 40% of that, right?

Randy MacDonald

Correct.

Jim Maga

But then you re going to have interest on the full amount. You re going to have some revenue attrition. You re going to have all of the intangible expense.

Randy MacDonald

Correct.

Jim Maga

But you re going to have the full share base. You re going to have to have earnings accretive to the $0.66, but not accretive to what Ameritrade earns stand-alone?

Randy MacDonald

Correct.

Jim Maga

So you will have a down year in earnings in 06?

Randy MacDonald

I don t agree with a down year in earnings, but your math is correct. The way you have stated your conclusion.

Jim Maga

So you will have an up year in net income, absolutely have an up year in net income, but relative to the new share base of 600 million, you have a down earnings year in earnings per share?

Randy MacDonald

Well, the initial combined companies are going to carry 1.1 billion in expense load. So that is why we have TD Ameritrade combined with a 33% margin. So it assumes no synergies. So your math was correct to add in the attrition, the amortization and the interest expense, and then take 40% of the 578.

Jim Maga

Right. So I end up with adjusted I end up with adjusted pretax of 582 million or after-tax of 350 million at 40% rate on shares of 600 million. It hits you around $0.58?

Randy MacDonald

Yes. You are assuming zero growth, too.

Jim Maga

Right, no, absolutely. I m just going steady-state last 12 months March 05.

Randy MacDonald

Right. Your math is correct. We have not come out with projections on 06. What we re trying to do is give you the tools by which you might be able to then project out, but I would not if I were making a projection here, it would not be that we would have it would not be a down year as you stated.

Jim Maga

Why not?

Randy MacDonald

Well, because I think there is enough growth built-in. These are the last 12 months ended March.

Jim Maga

No, I totally understand that. You guys are going to have growth in net income, but mathematically you are absolutely going to have a down year in earnings per share. Do you agree or not?

Randy MacDonald

We have we will come out with our projections, but we are not doing that right now.

Jim Maga

Okay. Well, congratulations, you guys. This is highly accretive to shareholders.

Joe Moglia

We appreciate it. Thank you.

Operator

Richard Herr, KBW.

Richard Herr

Congratulations on the great deal, guys. Most of my questions have already been asked and answered, but I guess just basically looking at the expense saves. I mean I guess it is safe to assume that most of these call saves are coming from TD?

Joe Moglia

No, I would not automatically assume that. Remember we begin with the assumption we want to do the right thing. We want to do the best thing. So allow us at least for the reasons I gave before, Rich, to make those decisions before we announce where they come from.

Richard Herr

Okay, understood. That is fair. And just kind of walk us through what is the propensity for your synergies expectation to be faster than the 40/90/100, Joe?

Joe Moglia

Well, if you recall when we did the Datek deal, we delivered 95% of all of the synergies within nine months.

Richard Herr

I remember that. Sure.

Joe Moglia

But we would rather see I think the concern is, is that while we would love to do this as quickly as possible and accelerate all this, it is far more in the best interest of our clients and our shareholders to make sure we re doing the right things, and we are thoughtful about it. So if it takes a little longer, that is okay with us. I m not predicting that it is going to take us a little wanderer, but we will get a better feel for that when we get into the middle of it, Rich.

Richard Herr

Okay, that is helpful. And just lastly, the $22 that was thrown out there for total consideration for Ameritrade shareholders, that would only be 7.9% of the shares, correct?

Joe Moglia

That is correct.

Richard Herr

Okay. So we shouldn t be looking at that as kind of what every shareholder is going to get?

Joe Moglia

No, the way Ed, remember, explained it to you, just sort of like simple math, if you are a shareholder of record ex-dividend, you re going to get on the record date, you re going to get a $6 dividend. There will then be a $16 tender. If you then choose to put your shares into that tender, whatever percentage get tendered gives you a $22 price. That would not be the price that you might calculate for the entire investment base, correct.

Richard Herr

So that is about 32 million shares if my math is correct, and how many do you anticipate Mr. Ricketts purchasing on the tender?

Joe Moglia

That decision will get made today.

Richard Herr

Okay, thank you. Congratulations, guys.

Operator

Howard Chen, CSFB.

Howard Chen

Congratulations, gentlemen. Just a few questions, Joe and Randy. Along Jim s line of questioning before, isn t there a gain on sale for Ameritrade Canada sometime after the transaction closes?

Randy MacDonald

Yes.

Howard Chen

So that would add to fiscal first-year EPS, presumably?

Randy MacDonald

Yes, but that would be extraordinary, yes.

Howard Chen

Right, but it still adds to the reported EPS?

Randy MacDonald

Yes. I think, in response to Jim s question, in my heart of hearts, I do not believe we would actually be below $0.66, but I am not ready to make projections about this combined company.

Howard Chen

Right. I just wanted to make sure that the gain on sale from Ameritrade Canada

Randy MacDonald

That is not how the gain on Canada is not how I would get you to (multiple speakers) higher than 66, so I want to make that clear.

Howard Chen

And, Randy, you mentioned in your remarks that you don t think there will be a need for hedging expenses related to asset liability matching. Can you help us walk through what you are assuming in terms of that two-year duration on the deposit side?

Randy MacDonald

Yes. We go through and do studies on our deposits, and there is a core base that, like any bank, those are sort of perpetual. And then it goes all the way to deposits that come and go daily. And so the aggregate life of that is about two years, so we feel very comfortable when we measure that and go out on the asset side for the same duration.

Howard Chen

And how has that changed, in your mind, in the past 12 months through this kind of Fed tightening cycle?

Randy McDonald

It really hasn t changed much. As a matter of fact, it s interesting; we have actually seen more money come into us. And as you know, we don t pay very high rates, so people are not giving us their cash because of the interest rates that we are paying. But the historical norms we have gone as high as 20%, but as Joe pointed out, in the fall it has been hovering at around 16% for the past couple of years. And that is what the new entity will look like, as well. We also administratively have the ability to reprice on the right side of the balance sheet, so those we administratively are able to change those prices so they don t automatically reprice.

Howard Chen

And then, is there still a need for the current bank charter application that is in process?

Joe Moglia

That will be a decision, again, Howard, we will make over time.

Howard Chen

And then, while I have you on the line, Joe, how do you view the need to consolidate here, given kind of the weak trading environment? We saw pretty sluggish net new account growth in the May numbers. What do you think is driving that on kind of stand-alone Ameritrade? How do you view that along the lines of kind of this deal and consolidation?

Joe Moglia

It sounds like you re asking me two questions one, my view on consolidation of the industry; secondly, view in terms of what is going on as far as net organic growth right now in the industry. Is that fair?

Howard Chen

Yes, but I m curious to think if you view them as linked in any way?

Joe Moglia

I m not sure there is a link with why don t I just answer them separately, and you decide if there s a link?

Howard Chen

Great.

Joe Moglia

First, as consolidation goes, when the bubble burst in March 2000 it clearly created, over the span of the subsequent three years, excess capacity in the industry. Now, a key to being a successful online brokerage is you have got to be effective with regards to productivity, efficiency and scalability. The combination of both of those concepts means by definition, in business and economics, you have got to see consolidation. I believe that is not over yet and therefore it will continue. There has been significant consolidation the last three years; I think there will be consolidation going forward.

Now, in terms of sluggish trading activity and sluggish account opening as of the last couple of months, remember there has always been a correlation between trading activity and what was going on as far as account opening goes. And from everything that we can gather, the typical individual investor is a little bit nervous about what s going on with the price of oil, what s going on with regards to higher interest rates. While they may not understand the economic growth in general, they understand what is going on in the automobile sector, and that scares them. The surveys we do tells us they like real estate better than stock, and they have got 15% of their position in cash.

So right now, they are not enthusiastically, aggressively involved with the market. They are either on the sideline looking for an opportunity, or you are on the bearish side. All those things, I think, kind of come together.

Howard Chen

And then the final question was, have you disclosed whether this was the unanimous decision by Ameritrade s Board of Directors?

Joe Moglia

It was a unanimous decision, yes.

Howard Chen

Okay, great. Well, congratulations again, everybody.

Operator

Scott Patrick, Morgan Stanley.

Scott Patrick

Congratulations. Most of my questions have been answered. I guess what I just want to try to understand a little bit better is really the rationale for levering up to pay the special dividend, and then, in the wake of that, how you arrive at the $16 price for the tender.

Ed Clark

I think the reality is that this was a competitive process to make sure that we got the best deal for the Ameritrade shareholders, and out of that process you have a number of different levers that you can use that are good for the Ameritrade shareholders, and it ended up with a combination of upfront dividend and a tender price. Ameritrade shareholders were well-served by their bankers.

Scott Patrick

And I guess just on the pricing front, if you

Ed Clark

(Multiple speakers) well-served by my banker, too.

Scott Patrick

Just one other question on the pricing front. I know that you can t talk in great detail right now, but you have kind of talked more, I think, with the bias of raising price and having more customer segments to do business with from the Ameritrade standpoint, Joe. But I guess I m just trying to on the surface, I am trying to understand how you think about from a bigger-picture standpoint your typical customer, the 10.99 customer. Is that a customer that you think you can charge 17.95 for a broader service and still retain?

Joe Moglia

Yes. I think one thing I have not meant in the past I mean, when we did the Datek deal, we increased prices. But in the conversations that we have all had over the span of the last year or so, I have not meant to give the impression that I have got a bias one way or the other, specifically as far as pricing goes. In terms of what is going on now, what we want to try to do and what we will do is we will provide our clients with customization and choice. So for those clients that want a do-it-yourself, totally online experience, that potentially is one price. For the client that wants access to a branch or access to an advisor, that s potentially another price. And then there are different potential value propositions in between that, and that this what we will work hard on trying to get right. And as we have talked in the past, it s a perfect alignment and fit with what we re trying to do strategically. But we are not ready to go out with any of that yet.

Operator

David Chamberlain (ph), PIMCO (ph).

David Chamberlain

I m curious on when I look back at the Datek acquisition and the attrition you saw in terms of customers, what was the attrition you saw there? And what gives you confidence that you can kind of maintain most of the TD accounts?

Joe Moglia

Because our number-one priority is retention of our accounts. We have been successful doing that all along. We recognize that and shareholder value are the only reasons why we are in business, so it will be the absolute focus of us moving forward.

David Chamberlain

Can you just give me an idea of what the Datek retention was in that deal?

Joe Moglia

Yes. The total Datek attrition that took place was about 6% plus and the overall number that we had budgeted for it was 10%. In this case, we are assuming the regular attrition plus an incremental 5%. The Datek assumption was 10% total.