

TRANSOCEAN INC  
Form 4  
August 11, 2005

**FORM 4**

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

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person \*  
PATTAROZZI RICHARD A

(Last) (First) (Middle)  
4 GREENWAY PLAZA  
(Street)  
HOUSTON, TX 77046  
(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol  
TRANSOCEAN INC [RIG]

3. Date of Earliest Transaction  
(Month/Day/Year)  
08/10/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director  10% Owner  
 Officer (give title below)  Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)  
 Form filed by One Reporting Person  
 Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
Ordinary Shares	08/10/2005		M		13,000	A	\$ 25.43
Ordinary Shares	08/10/2005		S		800	D	\$ 58.6
Ordinary Shares	08/10/2005		S		2,000	D	\$ 58.59
Ordinary Shares	08/10/2005		S		10,200	D	\$ 58.51
Ordinary Shares	08/10/2005		M		4,000	A	\$ 19.86
	08/10/2005		S		4,000	D	0

Ordinary Shares \$ 58.51

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Stock Options	\$ 25.43	08/10/2005		M	13,000	<u>(1)</u> 02/14/2010	Ordinary Shares	13,000
Stock Options	\$ 19.86	08/10/2005		M	4,000	<u>(2)</u> 05/07/2013	Ordinary Shares	4,000

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
PATTAROZZI RICHARD A 4 GREENWAY PLAZA HOUSTON, TX 77046		X		

## Signatures

William E. Turcotte by Power of Attorney 08/11/2005

\*\*Signature of Reporting Person

Date

## Explanation of Responses:

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The options are fully vested and exercisable.

(2) Grant of 6,000 options under the issuer's Long-Term Incentive Plan exercisable as follows: 2,000 on May 8, 2004; 2,000 on May 8, 2005 and 2,000 on May 8, 2006.

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Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. e related sub-proposals.

**Your vote is very important.** Whether or not you plan to attend the special meeting, please submit your proxy promptly by telephone or via the Internet in accordance with the instructions on the enclosed proxy card or by completing, dating and returning your proxy card in the enclosed envelope. Returning the proxy card or otherwise submitting your proxy does not deprive you of your right to attend the special meeting and vote in person.

We are very excited about this transaction and believe it will accelerate Ameritrade's long-term strategy and growth. Thank you for your support.

Sincerely,

Joseph H. Moglia  
Chief Executive Officer  
Ameritrade Holding Corporation

**Neither the Securities and Exchange Commission nor any U.S. state securities commission has approved or disapproved of the proposed issuance of shares of Ameritrade common stock in connection with the acquisition or determined whether this proxy statement is truthful or complete. Any representation to the contrary is a criminal offense.**

**This proxy statement is dated \_\_\_\_\_, 2005 and is first being mailed to Ameritrade stockholders on or about \_\_\_\_\_, 2005.**

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**REFERENCE TO ADDITIONAL INFORMATION**

This proxy statement incorporates by reference important business and financial information about Ameritrade from documents that are not included in or delivered with this proxy statement. You may obtain documents that are incorporated by reference in this proxy statement without charge by requesting them in writing or by telephone from Ameritrade at:

Ameritrade Holding Corporation  
4211 South 102nd Street  
Omaha, Nebraska 68127  
Telephone: 1-800-237-8692  
Attention: Investor Relations

Please note that copies of the documents provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference in the documents or this proxy statement.

**In order to receive timely delivery of requested documents in advance of the special meeting, you should make your request by no later than \_\_\_\_\_, 2005.**

**For a more detailed description of the information incorporated in this proxy statement by reference and how you may obtain it, see Where You Can Find More Information beginning on page 188.**

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**AMERITRADE HOLDING CORPORATION**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
TO BE HELD ON \_\_\_\_\_, 2005**

To Our Stockholders:

A special meeting of stockholders of Ameritrade Holding Corporation will be held at \_\_\_\_\_, local time, on \_\_\_\_\_, 2005 at \_\_\_\_\_, to consider and vote upon the proposals listed below and any other matters that may properly come before the special meeting or any adjournment or postponement of the special meeting.

*Proposal No. 1:* A proposal to approve the issuance of 193,600,000 shares of Ameritrade common stock (subject to adjustment for any stock dividends, stock splits or reclassifications) to The Toronto- Dominion Bank, or TD, and/or one or more of TD's affiliates, in accordance with the agreement of sale and purchase by and between TD and Ameritrade, which provides for the acquisition by Ameritrade of all of the capital stock of TD Waterhouse Group, Inc., or TD Waterhouse, a wholly owned subsidiary of TD.

*Proposal No. 2:* A proposal to approve the amendment and restatement of the certificate of incorporation of Ameritrade, which will be renamed TD Ameritrade Holding Corporation in connection with the transaction, in the form attached as Appendix C to this proxy statement, with the following sub-proposals:

2A a proposal to approve provisions restricting the authority of TD Ameritrade to implement anti-takeover measures that would potentially conflict with the terms of the stockholders agreement entered into in connection with the proposed acquisition of TD Waterhouse;

2B a proposal to approve the increase of the authorized number of shares of common stock, \$0.01 par value per share, of TD Ameritrade from 650,000,000 to 1,000,000,000;

2C a proposal to approve a provision which prohibits action by written consent of stockholders of TD Ameritrade;

2D a proposal to approve a provision increasing the size of the board of directors from nine members to twelve members for so long as the corporate governance provisions of the stockholders agreement entered into in connection with the proposed acquisition of TD Waterhouse remain in effect, and thereafter to allow the size of the board of directors to be determined by the board of directors;

2E a proposal to approve a provision setting forth procedures for the nomination or appointment of outside independent directors to the TD Ameritrade board of directors and the maintenance of an outside independent directors committee and a non-TD directors committee; and

2F a proposal to approve a provision which allocates corporate opportunities between TD Ameritrade and TD and which otherwise modifies the existing corporate opportunities provision of the certificate of incorporation.

*Proposal No. 3:* A proposal to approve an amendment and restatement of the Ameritrade Holding Corporation 1996 Long-Term Incentive Plan to reserve an additional 19,000,000 shares of Ameritrade common stock for future issuance under the 1996 Long-Term Incentive Plan. Subject to the approval of Proposal

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No. 3 and Proposal No. 4 (below) by Ameritrade's stockholders, the board of directors of Ameritrade has approved a decrease in the number of shares reserved under Ameritrade's 1998 Stock Option Plan by 20,000,000 shares. The share reserve increase under Proposal No. 3 and Proposal

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No. 4 and the corresponding reduction in the 1998 Stock Option Plan share reserve will therefore result in no net additional shares being reserved for issuance.

*Proposal No. 4:* A proposal to approve an amendment and restatement of the Ameritrade Holding Corporation 1996 Directors Incentive Plan to reserve an additional 1,000,000 shares of Ameritrade common stock for future issuance under the 1996 Directors Incentive Plan.

*Proposal No. 5:* A proposal to adjourn the special meeting of stockholders to a later date or dates if necessary to permit further solicitation of proxies on all matters if there are not sufficient votes at the time of the special meeting to approve Proposal No. 1 relating to the issuance of Ameritrade common stock to TD or Proposal No. 2 relating to the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals.

The close of business on \_\_\_\_\_, 2005 has been fixed as the record date for determining those Ameritrade stockholders entitled to vote at the special meeting. Accordingly, only stockholders of record at the close of business on that date are entitled to notice of, and to vote at, the special meeting or any adjournment or postponement of the special meeting.

*If Ameritrade stockholders wish to approve the acquisition of TD Waterhouse, they must approve Proposal No. 1 relating to the issuance of Ameritrade common stock to TD and Proposal No. 2 relating to the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals included in Proposal No. 2.*

**The Ameritrade board of directors recommends that you vote in favor of each of the above proposals (including each of the related sub-proposals under Proposal No. 2). Each member of our board of directors has advised us that he intends to vote all of the shares of Ameritrade common stock held, directly or indirectly, by him in favor of each of the above proposals and sub-proposals.**

**Your vote is very important.** Whether or not you plan to attend the special meeting, please submit your proxy promptly by telephone or via the Internet in accordance with the instructions on the accompanying proxy card, or by completing, dating and returning your proxy card in the enclosed envelope. A failure to submit a proxy by telephone, via the Internet or by mail or to vote in person at the special meeting will have the same effect as a vote against the acquisition of TD Waterhouse.

By order of our board of directors,  
*Corporate Secretary*

Omaha, Nebraska  
, 2005

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**QUESTIONS AND ANSWERS**

**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND RELATED MATTERS**

**Q1: What is the transaction?**

A1: Ameritrade Holding Corporation, or Ameritrade, has entered into a definitive agreement of sale and purchase to acquire all of the capital stock of TD Waterhouse Group, Inc., or TD Waterhouse, from The Toronto-Dominion Bank, or TD. In this proxy statement, we refer to the agreement of sale and purchase as the share purchase agreement. In connection with the acquisition of all of the capital stock of TD Waterhouse:

Ameritrade will issue 193,600,000 shares of Ameritrade common stock to TD, and/or one or more of TD's affiliates, in accordance with the terms of the share purchase agreement and pay \$20,000 in cash in exchange for the outstanding capital stock of TD Waterhouse.

Ameritrade will change its name to TD Ameritrade Holding Corporation.

Ameritrade will pay a special cash dividend of \$6.00 per share to its stockholders, subject to Ameritrade obtaining adequate financing, and Ameritrade will adjust its outstanding equity awards to preserve the pre-dividend economic value of the awards. The special dividend is a condition to the completion of the transaction and we will pay it only if the transaction is completed.

Ameritrade will sell its Canadian brokerage business, Ameritrade Canada, Inc., to TD for \$60 million in cash, subject to certain adjustments.

Prior to the completion of the transaction, TD Waterhouse will complete (1) the distribution to TD of any excess capital of TD Waterhouse above a specified minimum capital level (which includes a cash amount equal to \$1.00 per share of Ameritrade common stock to be retained by TD Waterhouse to fund a portion of the special dividend) and (2) the transfer of all of its non-U.S. and non-brokerage businesses to TD, so that at the time of completion of the acquisition of TD Waterhouse, TD Waterhouse will retain only its U.S. retail securities brokerage business.

Ameritrade has entered into a new stockholders agreement with TD and Ameritrade's Chairman and Founder J. Joe Ricketts, his wife and certain trusts for the benefit of their family, collectively referred to in this proxy statement as the Ricketts holders, which contains various provisions relating to the governance of TD Ameritrade following the completion of the transaction, including board composition, stock ownership, transfers by TD and the Ricketts holders, voting and other matters, and Ameritrade is proposing to make certain changes to its certificate of incorporation and bylaws to give effect to and facilitate the provisions of the stockholders agreement.

Following the completion of the acquisition of TD Waterhouse:

TD will initially beneficially own approximately 32% of the outstanding voting securities of TD Ameritrade.

TD will commence a tender offer, at a price of not less than \$16 per share (on an ex-dividend basis), to increase its beneficial ownership of TD Ameritrade voting securities to 39.9%. J. Joe Ricketts may elect to participate as a co-bidder in the tender offer to increase his beneficial ownership of TD Ameritrade voting securities to up to 29%.

Subject to certain exceptions, none of TD, J. Joe Ricketts, so long as he is serving as a director of TD Ameritrade, or any of their respective affiliates may participate in or own any portion of a business engaged in the business of providing securities brokerage services in the U.S. (or, solely in the case of Mr. Ricketts and his affiliates, in Canada) to retail traders, individual investors and registered investment advisors.



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TD Ameritrade will be prohibited from participating in or owning any portion of a business that competes with TD in the securities brokerage industry in Canada, and from owning a bank or similar financial institution.

**Q2: What am I being asked to vote on?**

A2: You are being asked to vote to approve the issuance of 193,600,000 shares of Ameritrade common stock under the share purchase agreement between Ameritrade and TD.

You are also being asked to vote to approve the amendment and restatement of our certificate of incorporation, including each of the amendments to the certificate of incorporation listed below:

provisions restricting the authority of TD Ameritrade to implement anti-takeover measures that would potentially conflict with the terms of the stockholders agreement entered into in connection with the acquisition of TD Waterhouse;

an increase in the authorized number of shares of common stock, \$0.01 par value per share, of TD Ameritrade from 650,000,000 to 1,000,000,000;

a provision which prohibits action by written consent of stockholders of TD Ameritrade;

an increase in the size of our board of directors from nine members to twelve members for so long as the corporate governance provisions of the stockholders agreement entered into in connection with the proposed acquisition of TD Waterhouse remain in effect, and thereafter allowing the size of our board of directors to be determined by the board of directors;

a provision setting forth procedures for the nomination or appointment of outside independent directors to the TD Ameritrade board of directors and the maintenance of an outside independent directors committee and a non-TD directors committee; and

a provision which allocates corporate opportunities between TD Ameritrade and TD and which otherwise modifies the existing corporate opportunities provision of the certificate of incorporation.

We are also asking you to approve the amendment and restatement of our 1996 Long-Term Incentive Plan and our 1996 Directors Incentive Plan to reserve an additional 20,000,000 shares of Ameritrade common stock for future issuance under these plans. Subject to the approval of the proposed share reserve increase by our stockholders, the board of directors of Ameritrade has approved a corresponding reduction of 20,000,000 shares in the share reserve under Ameritrade's 1998 Stock Option Plan. The share reserve increase under our 1996 Long-Term Incentive Plan and our 1996 Directors Incentive Plan and the corresponding reduction in the 1998 Stock Option Plan share reserve will therefore result in no net additional shares being reserved for issuance.

Finally, you are being asked to vote on a proposal to adjourn the special meeting of stockholders to a later date or dates if necessary to permit further solicitation of proxies on all proposals if there are not sufficient votes at the time of the special meeting to approve the issuance of Ameritrade common stock to TD or the amendment and restatement of our certificate of incorporation, including each related sub-proposal.

**Q3: Why is Ameritrade seeking stockholder approval of the amendment and restatement of its 1996 Long-Term Incentive Plan and its 1996 Directors Incentive Plan?**

A3: The board of directors of Ameritrade has determined, contingent upon stockholder approval, to increase the share reserve under Ameritrade's 1996 Long-Term Incentive Plan by 19,000,000 shares and to increase the share reserve under Ameritrade's 1996 Directors Incentive Plan by 1,000,000 shares. This will help ensure that Ameritrade (1) has a reasonable number of shares available to grant incentive awards under the 1996 Long-Term Incentive Plan and the 1996 Directors Incentive Plan and (2) has the most flexibility with respect to the types of incentive awards which may be granted. Subject to the approval of the proposed share reserve increase by



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Ameritrade's stockholders, the board of directors of Ameritrade has also approved a corresponding reduction of 20,000,000 shares in the share reserve under Ameritrade's 1998 Stock Option Plan.

As a result of these changes, the share reserve increase of 19,000,000 shares under the 1996 Long-Term Incentive Plan and the share reserve increase of 1,000,000 shares under the 1996 Directors Incentive Plan will consist entirely of shares previously authorized for issuance under the 1998 Stock Option Plan. The share increase under the 1996 Long-Term Incentive Plan and the 1996 Directors Incentive Plan and the corresponding reduction in the 1998 Stock Option Plan share reserve will therefore result in no net additional shares being reserved for issuance under Ameritrade stock plans.

**Q4: What vote of Ameritrade stockholders is required in connection with each of the proposals?**

A4: A quorum, consisting of the holders of a majority of the issued and outstanding shares of Ameritrade common stock as of the record date of the special meeting, must be present in person or by proxy before any action may be taken at the special meeting. Abstentions will be treated as shares that are present for purposes of determining the presence of a quorum.

The affirmative vote of the holders of a majority of the shares of Ameritrade common stock present in person or represented by proxy and voting on the matter is required to approve the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement.

The affirmative vote of the holders of a majority of the outstanding shares of Ameritrade common stock entitled to vote at the special meeting is required to approve our amended and restated certificate of incorporation, including each of the related sub-proposals described in Q&A 2 above.

The affirmative vote of the holders of a majority of the shares of Ameritrade common stock present in person or represented by proxy and voting on the matter is required to approve each of the proposals related to the amended and restated stock plans and the proposal to adjourn the special meeting if necessary to permit further solicitation of proxies on the issuance of Ameritrade common stock in accordance with the terms of the share purchase agreement or the amendment and restatement of our certificate of incorporation, including each related sub-proposal.

The completion of the acquisition of TD Waterhouse is conditioned upon the approval of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation (including each of the related sub-proposals). As a result, a vote against the proposal relating to the issuance of Ameritrade common stock to TD, the proposal relating to the amendment and restatement of our certificate of incorporation (or any of the related sub-proposals) will effectively be a vote against the acquisition of TD Waterhouse. The completion of the acquisition of TD Waterhouse is not conditioned upon the approval of the proposals relating to the amendment and restatement of our stock plans.

In connection with the acquisition of TD Waterhouse, the Ricketts holders, certain entities affiliated with TA Associates, or the TA holders, and certain entities affiliated with Silver Lake Partners, or the SLP holders, have agreed to vote their shares in favor of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals. As of September 2, 2005, the Ricketts holders, the TA holders and the SLP holders collectively owned approximately 34% of the outstanding shares of Ameritrade common stock.

**Q5: Do I need to send in my stock certificates if the transaction is completed?**

A5: No. You will not be required to exchange your certificates representing shares of Ameritrade common stock in connection with this transaction.

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**Q6: What happens if I do not vote?**

A6: The proposal to approve the amendment and restatement of our certificate of incorporation requires the affirmative vote of the holders of a majority of the outstanding shares of Ameritrade common stock. Because of this vote requirement and because the approval of this proposal is required to complete the acquisition of TD Waterhouse, failure to vote on the proposal to approve our amended and restated certificate of incorporation, including any of the related sub-proposals, is effectively a vote against the proposal and therefore a vote against the acquisition of TD Waterhouse.

The failure to vote on the proposals to approve the issuance of Ameritrade common stock to TD, the amendment and restatement of our 1996 Long-Term Incentive Plan and 1996 Directors Incentive Plan, and the adjournment of the special meeting if necessary to permit further solicitation of proxies will have no effect on the outcome of those proposals so long as there is a quorum present at the special meeting. However, the failure to vote on these proposals, by failing to either submit a proxy or attend the special meeting, may make it more difficult to establish a quorum at the special meeting.

**Q7: What do I need to do now?**

A7: After carefully reading and considering the information contained in this proxy statement, please submit your proxy by telephone or via the Internet in accordance with the instructions set forth in the enclosed proxy card, or fill out, sign and date the proxy card, and then mail your signed proxy card in the enclosed prepaid envelope as soon as possible so that your shares may be voted at the special meeting. See *The Special Meeting How to Vote Your Shares* beginning on page 36.

**Q8: If my shares are held in street name by my broker, will my broker vote my shares for me?**

A8: You should instruct your broker to vote your shares. If you do not instruct your broker, your broker will not have the authority to vote your shares for the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement, the amendment and restatement of our certificate of incorporation, including any of the related sub-proposals, the amendment and restatement of the 1996 Long-Term Incentive Plan and the 1996 Directors Incentive Plan.

Because of the vote requirements discussed in Q&A 4 and Q&A 6 above, broker non-votes, where the broker does not vote for or against a proposal, will have the same effect as votes cast against the proposal to approve the amendment and restatement of our certificate of incorporation (including the related sub-proposals) and, therefore, will have the same effect as votes against the acquisition of TD Waterhouse. However, broker non-votes will have no effect on the approval of the other proposals discussed in Q&A 4 and Q&A 6 above.

Please check with your broker and follow the voting procedures your broker provides. Your broker will advise you whether you may submit voting instructions by telephone or via the Internet. See *The Special Meeting Broker Non-Votes* and *The Special Meeting Quorum and Required Votes* beginning on pages 37 and 38, respectively.

**Q9: May I change my vote after I have submitted a proxy by telephone or via the Internet or mailed my signed proxy card?**

A9: Yes. You may change your vote at any time before your proxy is voted at the special meeting. You can do this in several ways. You can send a written notice stating that you want to revoke your proxy, or you can complete and submit a new proxy card. If you choose either of these methods, you must submit your notice of revocation or your new proxy card to the Corporate Secretary of Ameritrade (Ameritrade Holding Corporation, Attention: Corporate Secretary, 4211 S. 102nd Street, Omaha, NE 68127).

You can also change your vote by submitting a proxy at a later date by telephone or via the Internet, in which case your later-submitted proxy will be recorded and your earlier proxy revoked.

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You can also attend the special meeting and vote in person. Simply attending the special meeting, however, will not revoke your proxy; you must vote at the special meeting.

If you have instructed a broker to vote your shares, the preceding instructions do not apply, and you must follow the voting procedures received from your broker to change your vote.

**Q10: If I want to attend the special meeting, what do I do?**

A10: You should come to \_\_\_\_\_, at \_\_\_\_\_ local time, on \_\_\_\_\_, 2005. Stockholders of record as of the record date for the special meeting (\_\_\_\_\_, 2005) can vote in person at the special meeting. If your shares are held in street name, then you are not the stockholder of record and you must ask your broker, bank or other nominee holder how you can vote at the special meeting.

**Q11: Who can help answer my additional questions about this transaction?**

A11: If you have questions about this transaction, you should contact:  
Ameritrade Holding Corporation  
4211 South 102nd Street  
Omaha, Nebraska 68127  
*Attention: Investor Relations*  
Telephone: 1-800-237-8692

**QUESTIONS AND ANSWERS ABOUT THE SPECIAL DIVIDEND**

**Q1: What is a special dividend?**

A1: A dividend is a distribution by a company to its stockholders of cash, stock or property. A company's board of directors may from time to time declare a dividend, payable to stockholders quarterly, semiannually or annually, or on a one-time basis. A one-time or non-recurring dividend is commonly referred to as a special dividend.

**Q2: What is the special dividend that was announced by Ameritrade on June 22, 2005 in connection with the acquisition of TD Waterhouse?**

A2: The dividend Ameritrade announced on June 22, 2005 is a special cash dividend of \$6.00 per share that will be payable only if sufficient funds are available for the dividend and such declaration and payment is permitted by applicable law and if the acquisition of TD Waterhouse is completed. It is important to note that the Ameritrade board of directors has not yet declared the proposed special dividend. Please see Q&A 3 below regarding the declaration date. TD will effectively fund \$1.00 per share of the special dividend. Ameritrade will be required to borrow approximately \$1.6 to \$2.0 billion to fund the special dividend.

**Q3: What dates are relevant to the receipt of the special dividend, when will those dates be determined and when will they occur for the special dividend?**

A3: Whether a stockholder is entitled to the special dividend will depend on several significant dates determined in accordance with applicable rules of the Nasdaq National Market. These dates include the declaration date, the record date, the closing date, the payable date and the ex-dividend date. Each of these dates is described below.  
*Declaration date* This is the date on which a board of directors (1) decides that the company will pay a dividend and (2) sets the record date and the payable date for the dividend.

*Record date* This is the date set by a company for the purpose of determining its stockholders of record and the stock outstanding on the record date. The dividend is paid only on stock outstanding on the record date. We expect that the record date for the special dividend will be a date at least 10 calendar days after the declaration date and approximately 10 business days before the expected closing date of the acquisition of TD Waterhouse.

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*Closing date* This is the date that the acquisition of TD Waterhouse will be completed.

*Payable date* This is the date that a company pays the dividend. Please note that the actual receipt of the dividend by stockholders entitled to the dividend may take several days following the payable date. We expect that the payable date for the special dividend will be on the closing date of the acquisition of TD Waterhouse or the first trading day after the closing date.

*Ex-dividend date or ex-date* This is the date on and after which the stock trades in the Nasdaq National Market or on a stock exchange without the right to receive the declared dividend. We expect that the ex-dividend date will be the first trading day after the payable date.

Please keep in mind that the special dividend is contingent on the completion of the proposed acquisition of TD Waterhouse.

**Q4: Who is entitled to the special dividend?**

A4: Because shares of Ameritrade common stock sold in the market after the record date and on or before the payable date include the right to receive the special dividend, if you purchase shares of Ameritrade common stock in the market on or before the payable date (whether or not you owned the shares on the record date) and hold those shares until after the market opens on the ex-dividend date, you will receive the special dividend on those shares. Accordingly,

If you sell shares of Ameritrade common stock in the market before the ex-dividend date (whether or not you owned the shares on the record date), you will not be entitled to the special dividend with respect to those shares.

If you buy shares of Ameritrade common stock in the market on or after the ex-dividend date, you will not be entitled to the special dividend with respect to those shares.

Your market trade does not need to settle by the payable date in order to receive the special dividend. Rather, if you buy shares of Ameritrade common stock in the market on or before the payable date and hold those shares until after the market opens on the ex-dividend date, you will receive the special dividend on those shares.

The treatment of shares subject to stock options granted by Ameritrade to its employees or directors is not addressed in this Q&A 4. See Q&A 6 below for questions and answers related to stock options granted by Ameritrade and held by Ameritrade employees or directors.

The special dividend is contingent on the closing of the acquisition of TD Waterhouse.

**Q5: What happens to a company's stock price after a dividend is paid?**

A5: In theory, and disregarding other events and conditions that may affect financial markets and the price of a company's stock, when a company pays a special dividend, its stock price declines on the ex-dividend date to reflect the payment of the dividend. However, we cannot predict whether our stock price will decline in such a manner.

**Q6: Are holders of stock options and other equity awards granted by Ameritrade entitled to receive the dividend?**

A6: Stock options held by Ameritrade employees or directors are not entitled to cash dividends because dividends are paid on shares of stock outstanding as of the record date. Shares of stock underlying stock options that have not been exercised are not outstanding on the record date and therefore would not be entitled to the proposed special dividend.

However, we believe it is appropriate that holders of outstanding equity awards be treated fairly with respect to the special dividend, and in accordance with the terms of our stock plans, we will adjust any outstanding equity awards under the plans to preserve the pre-dividend economic value of the awards after payment of the proposed special dividend.



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**Q7: Will I owe taxes on the proposed special dividend?**

A7: A portion of the special dividend will be treated as qualified dividend income to the extent paid out of Ameritrade's current or accumulated earnings and profits, as determined under the Internal Revenue Code of 1986, as amended, or the Code, for the calendar year in which the special dividend is paid. The portion of the special dividend that will be taxable as qualified dividend income will not be determined until after December 31 of the year in which the special dividend is paid. With the assumption that current market conditions continue through the end of calendar year 2005, and that the special dividend is paid by December 31, 2005, based on preliminary estimates of Ameritrade's earnings and profits for tax purposes, it is anticipated that between approximately 25% to 30% of the special dividend received by each holder of Ameritrade common stock will be treated as qualified dividend income for United States federal income tax purposes. The portion of the special dividend that will be taxable as qualified dividend income may be more or less than these estimated percentages, depending on the actual results of Ameritrade's operations through the close of the 2005 calendar year, if the special dividend is paid in 2005, or the 2006 calendar year, if the special dividend is paid in 2006. Any portion of the special dividend in excess of each holder's pro rata share of Ameritrade's earnings and profits will be treated first as a tax-free return of capital up to each holder's basis in its shares of Ameritrade common stock, with any remainder treated as a capital gain. A non-corporate United States holder of Ameritrade common stock may be eligible to be taxed at a 15% (or lower) federal income tax rate on any portion of the special dividend constituting qualified dividend income for United States federal income tax purposes, provided that a minimum holding period and other requirements are satisfied. The 15% (or lower) tax rate for qualified dividend income is available only if the shares of Ameritrade common stock have been held for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date.

Non-United States holders of Ameritrade common stock will generally be subject to withholding on the gross amount of the special dividend at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

Because individual tax circumstances vary, you should consult your own tax advisor as it relates to your particular tax situation.

**QUESTIONS AND ANSWERS ABOUT THE TENDER OFFER**

**Q1: What is the tender offer?**

A1: Following the closing of the acquisition of TD Waterhouse, TD will initially beneficially own approximately 32% of the outstanding voting securities of TD Ameritrade. Following the closing of the acquisition of TD Waterhouse, TD will commence a tender offer, at a price of no less than \$16 per share (on an ex-dividend basis) to increase its beneficial ownership of TD Ameritrade voting securities to 39.9%. J. Joe Ricketts may elect to participate as a co-bidder in the tender offer to increase his beneficial ownership to up to 29% of TD Ameritrade voting securities. TD will not be obligated to offer to pay more than \$16 per share. Following the closing of the acquisition of TD Waterhouse, TD and J. Joe Ricketts, if he elects to participate as a co-bidder in the tender offer, will provide TD Ameritrade stockholders with additional information regarding the tender offer.

**Q2: Can TD change the price per share of the tender offer?**

A2: The tender offer is subject to a minimum price per share of \$16. However, TD may, at its discretion, increase the price per share that it offers.

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**Q3: Will TD buy all shares that are tendered?**

A3: The tender offer will not be subject to any minimum condition on the number of shares tendered. Subject to the other conditions of the tender offer being satisfied and the proration described in the following sentence, TD will purchase any shares that are tendered even if the number of shares tendered is less than the number TD offers to buy. If the number of shares of TD Ameritrade common stock tendered is greater than the number TD offers to buy, TD will purchase the shares pro rata, which means that a stockholder who accepts the offer will have only a portion of such stockholder's shares bought by TD.

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**Table of Contents****SUMMARY**

*This summary highlights selected information from this proxy statement. It does not contain all of the information that may be important to you. You should carefully read this entire document, including the appendices and the other documents to which this document refers you, for a more complete understanding of the matters being considered at the special meeting. See *Where You Can Find More Information* beginning on page 188. Additionally, some of the statements contained in, or incorporated by reference into, this proxy statement are forward-looking statements. See *Cautionary Statement Concerning Forward-Looking Statements* on page 34. All references in this proxy statement to dollars or \$ are to U.S. dollars and all references to CDN \$ are to Canadian dollars. In this proxy statement, unless otherwise indicated, we refer to accounting principles generally accepted in the U.S. as GAAP.*

**The Transaction (see page 40)**

Ameritrade and TD entered into an agreement of sale and purchase, which provides for the acquisition by Ameritrade of the U.S. retail securities brokerage business of TD Waterhouse from TD, which will result in a combined company named TD Ameritrade Holding Corporation, or TD Ameritrade. We refer to the agreement of sale and purchase as the *share purchase agreement* in this proxy statement. In this transaction, Ameritrade will issue 193,600,000 shares of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and pay TD \$20,000 in cash in exchange for the outstanding capital stock of TD Waterhouse. Following the completion of the transaction, TD will initially beneficially own approximately 32% of the outstanding voting securities of TD Ameritrade. In connection with the transaction, we will pay a special cash dividend of \$6.00 per share to our stockholders, subject to Ameritrade obtaining adequate financing. The special dividend is a condition to the completion of the transaction and we will pay it only if the transaction is completed. TD will effectively fund \$1.00 per share of the special dividend. Ameritrade will be required to borrow approximately \$1.6 to \$2.0 billion to fund the special dividend.

Prior to the completion of the transaction, TD Waterhouse will complete the transfer of all of its non-U.S. and non-brokerage businesses to TD and retain only its U.S. retail securities brokerage business. TD Waterhouse will also distribute to TD any excess capital of TD Waterhouse above a specified minimum capital level (which includes a cash amount equal to \$1.00 per Ameritrade share to be retained by TD Waterhouse to fund a portion of the special dividend).

In connection with entering into the share purchase agreement, Ameritrade also entered into a stockholders agreement with TD and the Ricketts holders, which contains various provisions relating to the governance of TD Ameritrade following the completion of the transaction, including board composition, stock ownership, transfers by TD and the Ricketts holders, voting and other matters, and Ameritrade is proposing to make certain changes to its certificate of incorporation and bylaws to give effect to and facilitate the provisions of the stockholders agreement. See *Certain Agreements Related to the Acquisition of TD Waterhouse* *Stockholders Agreement* beginning on page 91 for a further discussion of the stockholders agreement.

Ameritrade and several of its stockholders, including the Ricketts holders, have also entered into a voting agreement and an amended and restated registration rights agreement. Each Ameritrade stockholder who signed the voting agreement agreed to vote their shares of Ameritrade common stock in favor of the proposals to issue Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, and against competing proposals, subject to certain exceptions. Under the terms of the amended and restated registration rights agreement, the Ricketts holders and certain other existing Ameritrade stockholders will continue to be entitled to require, and TD will become entitled to require, TD Ameritrade to register their securities of TD Ameritrade under applicable securities laws.

Ameritrade and TD also entered into a trademark license agreement and have agreed to enter into a services agreement and a money market deposit account agreement. The trademark license agreement

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generally requires Ameritrade to use the TD trademark and logo as part of Ameritrade's corporate identity, TD Ameritrade, following the completion of the acquisition of TD Waterhouse. The money market deposit account agreement provides for the availability of money market deposit accounts to TD Ameritrade clients, and the services agreement provides for the availability of money market funds to TD Ameritrade clients. See Certain Agreements Related to the Acquisition of TD Waterhouse beginning on page 90 for a further discussion of these agreements.

Ameritrade has also agreed, under the terms of an agreement of sale and purchase among Ameritrade, Datek Online Holdings Corp., TD and TD Waterhouse Canada Inc., dated June 22, 2005, or the Canadian purchase agreement, to sell all of the capital stock of Ameritrade Canada, Inc. to TD Waterhouse Canada Inc. in exchange for \$60 million in cash, subject to certain adjustments.

Following the completion of the acquisition of TD Waterhouse, TD will commence a tender offer, at a price of not less than \$16 per share (on an ex-dividend basis), to increase its beneficial ownership of TD Ameritrade voting securities to 39.9%. J. Joe Ricketts may elect to participate as a co-bidder in the tender offer to increase his beneficial ownership of TD Ameritrade voting securities to up to 29%.

Subject to certain exceptions described in further detail in Certain Agreements Related to the Acquisition of TD Waterhouse Stockholders Agreement Non-Competition Covenants (beginning on page 95) none of J. Joe Ricketts, so long as he is serving as a director of TD Ameritrade, TD or any of their respective affiliates may participate in or own any portion of a business engaged in the business of providing securities brokerage services in the U.S. (or, solely in the case of Mr. Ricketts and his affiliates, in Canada) to retail traders, individual investors and registered investment advisors. If TD acquires indirectly such a competing business as a result of its acquisition of a non-competing business, TD must offer to sell the competing business to TD Ameritrade at its appraised fair value as determined in accordance with the terms of the stockholders agreement entered into in connection with the proposed acquisition of TD Waterhouse. If TD Ameritrade decides not to purchase the competing business, TD must use commercially reasonable efforts to divest the competing business within two years. In addition, TD Ameritrade will be prohibited from participating in or owning any portion of a business that competes with TD in the securities brokerage industry in Canada, and from owning a bank or similar financial institution.

**Adoption of the Proposed Amendments to Ameritrade Stock Plans (see pages 108 and 114)**

The board of directors believes that Ameritrade must offer a competitive equity incentive program if it is to continue to successfully attract and retain the best possible candidates for positions of responsibility within Ameritrade. The board of directors expects that the 1996 Long-Term Incentive Plan and the 1996 Directors Incentive Plan will continue to be important factors in attracting, retaining and rewarding the high caliber employees and independent directors essential to our success and in motivating these individuals to strive to enhance our growth and profitability.

The board of directors of Ameritrade has determined, contingent upon stockholder approval, to increase the share reserve under Ameritrade's 1996 Long-Term Incentive Plan by 19,000,000 shares and to increase the share reserve under Ameritrade's 1996 Directors Incentive Plan by 1,000,000 shares. This will help ensure that Ameritrade (1) has a reasonable number of shares available to grant incentive awards under the 1996 Long-Term Incentive Plan and the 1996 Directors Incentive Plan and (2) has the most flexibility with respect to the types of incentive awards which may be granted. Subject to the approval of the proposed increases to the share reserves under the two 1996 stock plans by Ameritrade's stockholders, the board of directors of Ameritrade has also approved a corresponding reduction of 20,000,000 shares in the share reserve under Ameritrade's 1998 Stock Option Plan. The share increase under the two 1996 plans and the corresponding reduction in the 1998 plan share reserve will result in no net additional shares being reserved for issuance under Ameritrade stock plans.

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**Material U.S. Federal Income Tax Consequences of the Acquisition of TD Waterhouse to Holders of Ameritrade Common Stock (see page 62)**

Ameritrade's purchase of all of the capital stock of TD Waterhouse and sale of all of the capital stock of Ameritrade Canada will not result in the recognition of gain or loss by holders of Ameritrade common stock.

A portion of the special dividend will be treated as qualified dividend income to the extent paid out of Ameritrade's current or accumulated earnings and profits, as determined under the Code, for the calendar year in which the special dividend is paid. The portion of the special dividend that will be taxable as qualified dividend income will not be determined until after December 31 of the year in which the special dividend is paid. With the assumption that current market conditions continue through the end of calendar year 2005, and that the special dividend is paid by December 31, 2005, based on preliminary estimates of Ameritrade's earnings and profits for tax purposes, it is anticipated that between approximately 25% to 30% of the special dividend received by each holder of Ameritrade common stock will be treated as qualified dividend income for United States federal income tax purposes. The portion of the special dividend that will be taxable as qualified dividend income may be more or less than these estimated percentages, depending on the actual results of Ameritrade's operations through the close of the 2005 calendar year, if the special dividend is paid in 2005, or the 2006 calendar year, if the special dividend is paid in 2006. Any portion of the special dividend in excess of each holder's pro rata share of Ameritrade's earnings and profits will be treated first as a tax-free return of capital up to each holder's basis in its shares of Ameritrade common stock, with any remainder treated as a capital gain.

A non-corporate United States holder of Ameritrade common stock may be eligible to be taxed at a 15% (or lower) federal income tax rate on any portion of the special dividend constituting qualified dividend income for United States federal income tax purposes, provided that a minimum holding period and other requirements are satisfied. The 15% (or lower) tax rate for qualified dividend income is available only if the shares of Ameritrade common stock have been held for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date.

Non-United States holders of Ameritrade common stock will generally be subject to withholding on the gross amount of the special dividend at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty.

Because individual tax circumstances vary, you should consult your own tax advisor as it relates to your particular tax situation.

**Ameritrade's Financial Advisor has Delivered an Opinion that, as of June 22, 2005, the Consideration to be Paid by Ameritrade in the Acquisition of TD Waterhouse was Fair, from a Financial Point of View, to Ameritrade (see page 50)**

In deciding to approve the acquisition of TD Waterhouse, Ameritrade's board of directors and a special committee of the board, which was formed to review, investigate and analyze a possible transaction with TD and other strategic alternatives, considered the oral opinion of Citigroup Global Markets Inc., which we refer to in this proxy statement as Citigroup, delivered on June 22, 2005, which was subsequently confirmed in writing, that, as of that date and based upon and subject to the assumptions, limitations and considerations set forth in the opinion, the consideration to be paid by Ameritrade in the acquisition of TD Waterhouse was fair, from a financial point of view, to Ameritrade. The written opinion of Citigroup is attached as Appendix B to this proxy statement. We urge Ameritrade stockholders to read the Citigroup opinion carefully and in its entirety. Citigroup's opinion was provided for the information of the Ameritrade board of directors and its special committee in their evaluation of the proposed acquisition of TD Waterhouse and was limited solely to the fairness from a financial point of view as of the date of the opinion of the consideration to be paid by Ameritrade in the acquisition of TD Waterhouse. Citigroup's opinion did not constitute a recommendation of the acquisition of TD Waterhouse to the Ameritrade board of directors or its special committee and Citigroup makes no recommendation to any stockholder regarding how such stockholder should vote or act on any matters relating to the acquisition of

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TD Waterhouse, including whether any stockholder should tender shares of Ameritrade common stock in the tender offer to be made by TD following consummation of the acquisition of TD Waterhouse and in which J. Joe Ricketts may participate as a co-bidder.

**Ameritrade Executive Officers and Directors have Financial and Other Interests in the Transaction that may be Different from or in Addition to Your Interests (see page 60)**

When you consider our board of directors' recommendation to vote in favor of the proposals presented in this proxy statement, you should be aware that some of Ameritrade's executive officers and directors have interests in the acquisition of TD Waterhouse that may be different from, or in addition to, the interests of other Ameritrade stockholders.

We expect that Mr. Moglia will continue to serve as Chief Executive Officer of TD Ameritrade and that J. Joe Ricketts will continue to serve as Chairman of TD Ameritrade. Ameritrade is currently negotiating a new employment agreement with Mr. Moglia with respect to his continued employment. In addition, Ameritrade may negotiate and enter into, prior to the closing, and after consultation with TD, new or amended employment agreements with other executive officers.

In connection with the acquisition of TD Waterhouse, directors and executive officers of Ameritrade, who beneficially own approximately 125,509,352 shares of Ameritrade common stock as of September 2, 2005 will receive an aggregate of approximately \$753.1 million as a result of the payment of proposed special dividend of \$6.00 per share assuming the timely exercise of all vested options. The beneficial ownership of directors and executive officers of Ameritrade includes options to purchase 15,011,909 shares of Ameritrade common stock exercisable within 60 days of September 2, 2005. In particular, based on J. Joe Ricketts's beneficial ownership of Ameritrade common stock as of September 2, 2005, Mr. Ricketts will receive approximately \$535.9 million as a result of the payment of the proposed special dividend, assuming timely exercise of all vested options.

In connection with the proposed special dividend, Ameritrade will adjust outstanding equity awards under its stock option plans to preserve the pre-dividend economic value of the award after payment of the special dividend. As of September 2, 2005, directors and executive officers of Ameritrade collectively held options (vested and unvested) to purchase 16,414,002 shares of common stock. These options will be adjusted unless exercised prior to the ex-dividend date.

In addition, under the terms of the stockholders agreement entered into in connection with the proposed acquisition of TD Waterhouse, the Ricketts holders will have, among other things, specified rights relating to board representation and the ability to acquire additional TD Ameritrade securities to maintain their ownership position. In particular, the Ricketts holders may designate three directors for election, following the closing of the acquisition of TD Waterhouse, and may participate in a tender offer with TD, such that upon completion of the tender offer, the Ricketts holders may beneficially own up to 29% of the outstanding voting securities of TD Ameritrade. The Ricketts holders also have the right to approve candidates for the outside independent director positions on the TD Ameritrade board of directors. See "Certain Agreements Related to the Acquisition of TD Waterhouse" Stockholders Agreement beginning on page 91. As of September 2, 2005, the Ricketts holders collectively owned approximately 26% of the outstanding shares of Ameritrade common stock.

Further, pursuant to the terms of the amended and restated registration rights agreement, the Ricketts holders and other Ameritrade directors or their affiliates will continue to be entitled to require TD Ameritrade to register their securities of TD Ameritrade under applicable securities laws. See "Certain Agreements Related to the Acquisition of TD Waterhouse" Amended and Restated Registration Rights Agreement beginning on page 96.

The Ameritrade board of directors was aware of these interests when it approved the issuance of Ameritrade common stock in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation and determined that the transactions contemplated by the share purchase agreement were fair to, and in the best interests of, Ameritrade and its stockholders.

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**The Companies**

*Ameritrade Holding Corporation*

4211 South 102nd Street  
Omaha, Nebraska 68127  
(402) 331-7856

Ameritrade is a leading provider of securities brokerage services and technology-based financial services to retail investors and business partners, predominantly through the Internet. Ameritrade's services appeal to a broad market of independent, value conscious retail investors, traders, financial planners and institutions. Ameritrade uses its low-cost platform to offer brokerage services to retail investors and institutions under a commission structure that is generally lower and simpler than that of most of its major competitors.

Ameritrade has been an innovator in electronic brokerage services since being established in 1975. Ameritrade believes it was 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, Ameritrade has substantially increased its number of client brokerage accounts, average daily trading volume and total assets in client accounts. Ameritrade has also built, and continues to invest in, a proprietary trade processing platform that is both cost efficient and highly scalable, significantly lowering its operating costs per trade.

*The Toronto-Dominion Bank*

Toronto-Dominion Centre  
P.O. Box 1  
Toronto, Ontario, Canada M5K 1A2  
(416) 982-8222

TD is a Canadian chartered bank subject to the provisions of the Bank Act (Canada) and was formed in 1955 through the amalgamation of The Bank of Toronto (established in 1855) and The Dominion Bank (established in 1869). TD and its subsidiaries are collectively known as TD Bank Financial Group. In Canada and around the world, TD Bank Financial Group serves more than 14 million clients, in four key businesses operating in a number of locations in key financial centers around the globe: Canadian Personal and Commercial Banking, including TD Canada Trust; Wealth Management, including the global operations of TD Waterhouse; Wholesale Banking, including TD Securities; and U.S. Retail and Commercial Banking through TD Banknorth. TD Bank Financial Group also ranks among the world's leading online financial services firms, with more than 4.5 million online customers. TD Bank Financial Group had CDN \$368 billion in assets as of July 31, 2005.

*TD Waterhouse Group, Inc.*

TD Waterhouse provides investors and financial advisors with a broad range of brokerage, mutual fund, banking, and other consumer financial products. TD Waterhouse had 2.9 million active customer accounts (active is defined as having funds, a security or activity in the most recent month) as of April 30, 2005 in the U.S. and Canada, of which 2.1 million are in the U.S. TD Waterhouse is a wholly owned subsidiary of TD. See TD Waterhouse Business Description beginning on page 121.

**Board of Directors and Executive Management of TD Ameritrade Following the Acquisition of TD Waterhouse (see page 61)**

Following the transaction, the TD Ameritrade board of directors will consist of twelve members, five of whom will be designated by TD, three of whom will be designated by the Ricketts holders, one of whom will be the chief executive officer of TD Ameritrade, and three of whom will be outside independent directors, who will initially be designated from among Ameritrade's current independent directors (or will

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be new directors designated by those existing independent directors, subject to the consent of TD and the Ricketts holders) and thereafter will be designated by the existing outside independent directors of TD Ameritrade, subject to the consent of TD and the Ricketts holders. The initial designees of the Ricketts holders will be J. Joe Ricketts, J. Peter Ricketts and Thomas S. Ricketts, each of whom is currently a member of the Ameritrade board of directors. The right of each of TD and the Ricketts holders to designate directors is subject to their maintenance of specified ownership thresholds of TD Ameritrade common stock. The TD Ameritrade board of directors will continue to be classified into three classes, with each class serving staggered, three-year terms. TD and the Ricketts holders have agreed to vote their shares to maintain these directors. Following the completion of the acquisition of TD Waterhouse, we expect that TD Ameritrade will qualify as a controlled company for purposes of NASD Rule 4350(c) and, as such, will be exempt from specified director independence requirements of The Nasdaq Stock Market that would otherwise be applicable to Ameritrade. See *The Transaction Directors and Management Following the Acquisition of TD Waterhouse* beginning on page 61.

In addition, it is expected that Joseph H. Moglia will continue as the Chief Executive Officer of TD Ameritrade, J. Joe Ricketts will continue as the Chairman of TD Ameritrade and W. Edmund Clark, the President and Chief Executive Officer of TD, will serve as Vice Chairman of the TD Ameritrade board of directors.

**The Special Meeting of Ameritrade Stockholders (see page 35)**

*When and Where.* The special meeting of stockholders of Ameritrade will be held at \_\_\_\_\_, local time, on \_\_\_\_\_, 2005 at \_\_\_\_\_.

*Purpose of the Special Meeting.* The purpose of the special meeting is to consider and vote on the proposals and sub-proposals described below, each of which must be approved by Ameritrade stockholders in order for us to complete the acquisition of TD Waterhouse.

A proposal to approve the issuance of 193,600,000 shares of Ameritrade common stock to TD, and/or one or more of TD's affiliates, in accordance with the terms of the share purchase agreement;

A proposal to approve the amendment and restatement of our certificate of incorporation, with the following sub-proposals:

a proposal to approve provisions restricting the authority of TD Ameritrade to implement anti-takeover measures that would potentially conflict with the terms of the stockholders agreement entered into in connection with the proposed acquisition of TD Waterhouse;

a proposal to approve the increase of the authorized number of shares of common stock, \$0.01 par value per share, of TD Ameritrade from 650,000,000 to 1,000,000,000;

a proposal to approve a provision which prohibits action by written consent of stockholders of TD Ameritrade;

a proposal to increase the size of the board of directors from nine members to twelve members for so long as the corporate governance provisions of the stockholders agreement entered into in connection with the proposed acquisition of TD Waterhouse remain in effect, and thereafter to allow the size of the board of directors to be determined by the board of directors;

a proposal to approve a provision setting forth procedures for the nomination or appointment of outside independent directors to the TD Ameritrade board of directors and the maintenance of an outside independent directors committee and a non-TD directors committee; and

a proposal to approve a provision which allocates corporate opportunities between TD Ameritrade and TD and which otherwise modifies the existing corporate opportunities provision of the certificate of incorporation.

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**Approval of each of the proposals above, including each of the sub-proposals relating to the amendment and restatement of our certificate of incorporation, is a condition to the completion of the acquisition of TD Waterhouse.**

The following additional proposals will also be voted on at the special meeting:

A proposal to approve an amendment and restatement of our 1996 Long-Term Incentive Plan to reserve an additional 19,000,000 shares of Ameritrade common stock for future issuance under the 1996 Long-Term Incentive Plan;

A proposal to approve an amendment and restatement of our 1996 Directors Incentive Plan to reserve an additional 1,000,000 shares of Ameritrade common stock for future issuance under the 1996 Directors Incentive Plan; and

A proposal to adjourn the special meeting of stockholders to a later date or dates if necessary to permit further solicitation of proxies on all proposals if there are not sufficient votes at the time of the special meeting to approve the proposals relating to the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement or the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals.

Approval of these additional proposals is not a condition to the completion of the acquisition of TD Waterhouse.

At the special meeting, Ameritrade stockholders will also be asked to consider and vote on any other matters that may properly come before the special meeting or any adjournment or postponement of the special meeting.

*Record Date; Shares Entitled to Vote.* Ameritrade has fixed the close of business on \_\_\_\_\_, 2005 as the record date for the determination of holders of Ameritrade common stock entitled to notice of and to vote at the special meeting and any adjournment or postponement of the special meeting. At the close of business on the record date for the special meeting, there were \_\_\_\_\_ shares of Ameritrade common stock outstanding and entitled to vote. Each share of Ameritrade common stock entitles its holder to one vote at the special meeting on all matters properly presented at the meeting.

*Required Votes.* The affirmative vote of the holders of a majority of the outstanding shares of Ameritrade common stock entitled to vote at the special meeting is necessary to approve the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals. The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and voting on the applicable matter is necessary to approve the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement, the amended and restated stock plans and the proposal to adjourn the special meeting if necessary to permit further solicitation of proxies. **The approval of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the approval of the amendment and restatement of our certificate of incorporation (including each of the related sub-proposals) are conditions to the completion of the acquisition of TD Waterhouse.**

The Ameritrade board of directors has unanimously determined that the acquisition of TD Waterhouse is fair to and in the best interests of Ameritrade and its stockholders and has declared advisable the share purchase agreement and the transactions contemplated by the share purchase agreement. The Ameritrade board of directors also has unanimously approved the amendment and restatement of our certificate of incorporation. The board of directors has approved the amended and restated stock plans.

In connection with the acquisition of TD Waterhouse, the Ricketts holders, the TA holders, and the SLP holders have agreed to vote their shares in favor of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals. As of September 2, 2005, the

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Ricketts holders, the TA holders and the SLP holders collectively owned approximately 34% of the outstanding shares of Ameritrade common stock.

**The Ameritrade board of directors unanimously recommends that you vote *FOR* approval of the proposed issuance of Ameritrade common stock to TD, the proposed amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, the amendment and restatement of our stock plans and the adjournment of the special meeting if necessary to permit further solicitation of proxies.**

**The Share Purchase Agreement (see page 69)**

The share purchase agreement is described beginning on page 69 and is attached as Appendix A to this proxy statement. We urge you to read the share purchase agreement in its entirety because this document is the legal document governing the proposed acquisition of TD Waterhouse.

*Consideration to be Paid in the Transaction.* Upon the terms and conditions contained in the share purchase agreement, Ameritrade will purchase from TD all of the capital stock of TD Waterhouse in exchange for 193,600,000 shares of Ameritrade common stock and \$20,000 in cash. Immediately after the completion of the transaction, TD will beneficially own approximately 32% of the outstanding voting securities of TD Ameritrade.

*Closing Date Capital Adjustment.* The share purchase agreement contains a closing date capital adjustment mechanism that is designed to ensure that a specified level of tangible value will be contributed to the combined entity by both TD Waterhouse and Ameritrade upon the closing of the transaction. Under the closing date capital adjustment, Ameritrade may be required to pay TD additional consideration in the event the closing date net tangible book value of Ameritrade is below a specified level or the closing date net tangible book value of TD Waterhouse is above a specified level. Similarly, TD may be required to make capital contributions to Ameritrade in the event the closing date net tangible book value of TD Waterhouse is below a specified level or the closing date net tangible book value of Ameritrade is above a specified level.

*Reorganization.* Prior to the consummation of the transactions contemplated by the share purchase agreement, TD Waterhouse will complete the transfer of all of its non-U.S. and non-brokerage businesses to TD, so that at the time of completion of the acquisition of TD Waterhouse, TD Waterhouse will retain only its U.S. retail securities brokerage business, and TD Waterhouse will also distribute to TD any excess capital of TD Waterhouse above a specified minimum capital level (which will include a cash amount equal to \$1.00 per share of Ameritrade common stock to be retained by TD Waterhouse to fund a portion of the special dividend). We refer to these transactions collectively as the Reorganization in this proxy statement.

*Sale of Ameritrade Canada.* In connection with the consummation of the transactions contemplated by the share purchase agreement, Ameritrade has also agreed to sell all of the capital stock of Ameritrade Canada, Inc. to TD Waterhouse Canada Inc. in exchange for \$60 million in cash, subject to certain adjustments. See Certain Agreements Related to the Acquisition of TD Waterhouse Ameritrade Canada Purchase Agreement beginning on page 97.

*The Special Dividend.* Under the terms of the share purchase agreement, the Ameritrade board of directors will declare a special dividend of \$6.00 per share if sufficient funds are available for the dividend and such declaration and payment is permitted by applicable law, which will be payable only if the acquisition of TD Waterhouse is completed. The Ameritrade board will declare the special dividend prior to the closing date of the acquisition of TD Waterhouse, and the special dividend will have a record date prior to the closing date. It is a condition to Ameritrade's and TD's obligations to consummate the acquisition of TD Waterhouse that Ameritrade (1) has available to it sufficient funds, and is permitted under applicable law, to pay the special dividend, and (2) has duly declared the special dividend. TD will effectively fund \$1.00 per share of the special dividend by means of its agreement to cause TD Waterhouse to be capitalized as of the record date for the special dividend with cash in an amount at

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least equal to the product of \$1.00 multiplied by the number of outstanding shares of Ameritrade common stock as of a date that is within three business days of the record date, and to cause TD Waterhouse to maintain this minimum capitalization until the closing.

*Completion of the Acquisition of TD Waterhouse is Subject to Conditions.* The respective obligations of each of Ameritrade and TD to consummate the acquisition of TD Waterhouse are subject to the satisfaction or waiver of the following conditions:

receipt of the required approval of the Ameritrade stockholders of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals;

the receipt and continued effectiveness of required regulatory approvals;

the absence of any injunction or other legal restraint or prohibition against the acquisition of TD Waterhouse or the consummation of the other transactions contemplated by the share purchase agreement;

the completion of the Reorganization; and

as described above, the availability of sufficient funds, and the ability under applicable law, to pay the special dividend and the declaration of the special dividend.

Ameritrade's obligation to consummate the acquisition of TD Waterhouse is subject to the satisfaction or waiver of the following conditions:

the accuracy of the representations and warranties of TD as of the date of the share purchase agreement and as of the closing date, other than, in most cases, those failures to be true and correct that would not result or reasonably be expected to result, individually or in the aggregate, in a material adverse effect on TD Waterhouse;

performance in all material respects by TD of the obligations required to be performed by it at or prior to the closing date;

each of the stockholders agreement, the trademark license agreement, the services agreement and the money market deposit account agreement being in full force and effect and the representations and warranties of TD in each such agreement being true and correct in all material respects and TD having performed in all material respects all obligations required to be performed by it thereunder, if any, at or prior to the closing date; and

receipt of a copy of the resolutions duly adopted by the board of directors (or a duly authorized committee thereof) of TD authorizing the execution, delivery and performance by TD of the share purchase agreement.

TD's obligation to consummate the sale of TD Waterhouse is subject to the satisfaction or waiver of the following conditions:

the accuracy of the representations and warranties of Ameritrade as of the date of the share purchase agreement and as of the closing date, other than, in most cases, those failures to be true and correct that would not result or reasonably be expected to result, individually or in the aggregate, in a material adverse effect on Ameritrade;

performance in all material respects by Ameritrade of the obligations required to be performed by it at or prior to the closing date;

each of the stockholders agreement, the amended and restated registration rights agreement, the trademark license agreement, the services agreement and the money market deposit account agreement being in full force and effect and the representations and warranties of Ameritrade in each such agreement being true and correct in all material respects and Ameritrade having



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performed in all material respects all obligations required to be performed by it thereunder, if any, at or prior to the closing date;

all necessary actions having been taken, including the execution, acknowledgement and filing of the amended and restated certificate of incorporation with the Secretary of State of the State of Delaware, such that, as of the closing, (1) the amended bylaws of Ameritrade as required by the share purchase agreement and the amended and restated certificate of incorporation are in effect as the duly adopted bylaws and certificate of incorporation of Ameritrade, and (2) the Ameritrade board of directors is constituted in accordance with the terms of the stockholders agreement; and

receipt of a copy of the resolutions duly adopted by the board of directors (or a duly authorized committee thereof) of Ameritrade authorizing the execution, delivery and performance by Ameritrade of the share purchase agreement.

*The Share Purchase Agreement May Be Terminated under Certain Circumstances.* The share purchase agreement may be terminated at any time prior to the closing, by action taken or authorized by the board of directors of the terminating party or parties, whether before or after approval of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation by the Ameritrade stockholders, in any of the following ways:

by mutual written consent of Ameritrade and TD;

by either Ameritrade or TD if:

any governmental entity which must grant a required regulatory approval required to complete the acquisition of TD Waterhouse has denied such approval and this denial has become final and nonappealable or a governmental entity has issued a final nonappealable order prohibiting the consummation of the transactions contemplated by the share purchase agreement;

the closing has not occurred on or before March 31, 2006, except that (1) neither TD nor Ameritrade may terminate the share purchase agreement for this reason if its breach of any obligation under the share purchase agreement has resulted in the failure of the closing to occur by that date and (2) TD may not terminate the share purchase agreement for this reason if as of March 31, 2006 the Reorganization has not been completed but all of the other closing conditions have been satisfied or waived on or prior to such date;

there is a breach by the other party of the share purchase agreement which would prevent satisfaction of a closing condition and the breach cannot be cured prior to the closing or is not cured prior to 30 days after receipt of written notice of the breach, but neither Ameritrade nor TD may terminate the share purchase agreement for this reason if it is then in material breach of the share purchase agreement; or

the stockholders of Ameritrade fail to give the necessary approval of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement or the amendment and restatement of our certificate of incorporation (including each of the related sub-proposals) at the Ameritrade special meeting; by TD, if Ameritrade shall have breached its obligations in any material respect with respect to calling and giving notice of, and using all reasonable efforts to convene and hold, the Ameritrade special meeting, and shall not have cured such breach within five business days following written notice from TD of the breach; and

by TD, if any of the following events occur:

Ameritrade's board of directors, or any committee thereof, has publicly withdrawn, modified or qualified in any manner adverse to TD its recommendation of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement or the



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amendment and restatement of our certificate of incorporation (or any of the related sub-proposals) or has adopted a resolution to do so;

Ameritrade's board of directors fails to make or reaffirm (publicly, if so requested) its recommendation in favor of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement or the amendment and restatement of our certificate of incorporation (including each of the related sub-proposals) within five business days after TD requests in writing that such recommendation be made or reaffirmed (except that the five business day time period may be extended if a third party has made an acquisition proposal with respect to Ameritrade);

Ameritrade's board of directors or any committee thereof approves or publicly recommends any acquisition proposal with respect to Ameritrade;

Ameritrade executes any agreement or contract accepting any acquisition proposal with respect to Ameritrade; or

A third party commences a tender or exchange offer relating to securities of Ameritrade and Ameritrade does not inform its security holders within ten business days after such commencement that the Ameritrade board of directors unconditionally recommends rejection of such tender or exchange offer.

*Ameritrade May Be Required to Pay a Termination Fee Under Some Circumstances.* If the share purchase agreement is terminated under specified circumstances, including circumstances involving a change in recommendation by Ameritrade's board of directors, Ameritrade will be required to pay TD a termination fee of \$97 million. The termination fee could discourage other companies from seeking to acquire or merge with Ameritrade.

**The Voting Agreement (see page 90)**

In connection with the execution of the share purchase agreement, the Ricketts holders, the TA holders, the SLP holders and TD entered into a voting agreement pursuant to which, among other things, the parties to the voting agreement agreed, solely in their capacity as stockholders, to vote their shares of Ameritrade common stock in favor of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation (including each of the related sub-proposals) and against competing proposals, unless Ameritrade has effected a change in recommendation with respect to the proposed acquisition of TD Waterhouse as permitted under the share purchase agreement.

**The Stockholders Agreement (see page 91)**

Concurrently with entering into the share purchase agreement, Ameritrade, the Ricketts holders and TD entered into a stockholders agreement. The stockholders agreement contains certain governance arrangements and various provisions relating to board composition, stock ownership, transfers by TD and the Ricketts holders, voting and other matters. The stockholders agreement is included as Appendix F to this proxy statement, and we urge you to read it in its entirety.

*Governance of TD Ameritrade.* The stockholders agreement provides that following consummation of the acquisition of TD Waterhouse, the board of directors of TD Ameritrade will consist of twelve members, five of whom will be designated by TD, three of whom will be designated by the Ricketts holders, one of whom will be the chief executive officer of TD Ameritrade, and three of whom will be outside independent directors, who will initially be designated from among Ameritrade's current independent directors (or will be new directors designated by those existing independent directors, subject to the consent of TD and the Ricketts holders) and thereafter will be designated by the existing outside independent directors of TD Ameritrade, subject to the consent of TD and the Ricketts holders. Following the completion of the acquisition of TD Waterhouse, the number of directors designated by TD and the Ricketts holders will depend on their maintenance of specified ownership thresholds of TD Ameritrade



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common stock and may increase or decrease from time to time based on those ownership thresholds, but will never exceed five (in the case of TD) or three (in the case of the Ricketts holders). The TD Ameritrade board of directors will continue to be classified into three classes, with each class serving staggered three-year terms. Subject to applicable laws and certain conditions, TD Ameritrade will cause each committee of its board of directors (other than the outside independent director committee and a committee of the board of directors comprised solely of all directors who are not TD directors) to initially consist of two of the directors designated by TD, one of the directors designated by the Ricketts holders, and two of the outside independent directors. These levels of committee representation are subject to adjustment from time to time based on TD's and the Ricketts holders' maintenance of specified ownership thresholds. The parties to the stockholders agreement each agreed to vote their shares of TD Ameritrade common stock in favor of, and TD Ameritrade agreed that it would solicit votes in favor of, each director nominated for election in the manner provided for in the stockholders agreement.

*Tender Offer and Share Ownership.* The stockholders agreement provides that following consummation of the acquisition of TD Waterhouse, TD (and J. Joe Ricketts, if he elects to participate as a co-bidder) will commence a cash tender offer pursuant to which TD will offer to purchase a number of shares of TD Ameritrade common stock such that, upon successful completion of the offer, TD will beneficially own 39.9% of the outstanding voting securities of TD Ameritrade. If J. Joe Ricketts elects to participate in the tender offer, he may offer to purchase up to the number of shares of TD Ameritrade common stock such that, upon successful completion of the tender offer, the Ricketts holders collectively own 29% of the outstanding voting securities of TD Ameritrade. The offer price will be no less than \$16 per share and the offer will not be subject to any minimum condition on the number of shares tendered. The stockholders agreement further provides that following the acquisition of TD Waterhouse and the completion of the tender offer, TD may acquire additional shares of TD Ameritrade common stock only up to an aggregate beneficial ownership interest of 39.9% of the outstanding voting securities of TD Ameritrade for a period of three years following completion of the acquisition of TD Waterhouse, and up to an aggregate beneficial ownership of 45% for the remaining term of the stockholders agreement, and the Ricketts holders may acquire additional shares of TD Ameritrade common stock only up to an aggregate ownership interest of 29% of the outstanding TD Ameritrade common stock. The stockholders agreement also provides that TD will not, subject to certain exceptions, solicit proxies with respect to TD Ameritrade common stock. Despite the limitations on TD's ownership described above, the stockholders agreement permits TD to make a non-public proposal to the TD Ameritrade board of directors to acquire additional shares pursuant to a tender offer or merger for 100% of the outstanding voting securities of TD Ameritrade and to complete such a transaction, subject to the approval of independent directors and holders of a majority of the outstanding shares of TD Ameritrade common stock not affiliated with TD.

*Right to Purchase Securities.* In addition, TD and the Ricketts holders will have the right to purchase up to their respective proportionate share of future issuances of TD Ameritrade common stock, other than in connection with TD Ameritrade stock issued as consideration in an acquisition by TD Ameritrade and certain other issuances specified in the stockholders agreement. If TD Ameritrade proposes to issue shares as consideration in an acquisition, TD Ameritrade will discuss in good faith with TD and the Ricketts holders alternative structures in which a portion of such shares would be sold to TD or the Ricketts holders, with the proceeds of such sale used to fund the acquisition.

The stockholders agreement further provides that if TD Ameritrade engages in discussions with a third party that could result in the acquisition by such party of 25% of the voting securities or consolidated assets of TD Ameritrade, TD Ameritrade must offer TD the opportunity to participate in parallel discussions with TD Ameritrade regarding a comparable transaction.

*Transfer Restrictions.* The stockholders agreement generally prohibits TD and the Ricketts holders from transferring shares of TD Ameritrade common stock, absent approval of the independent directors, to any holder of 5% or more of the outstanding shares of TD Ameritrade, subject to certain exceptions. For so long as TD and TD Ameritrade constitute the same audit client, TD will not engage the auditor of TD Ameritrade, and TD Ameritrade will not engage the auditors of TD, to provide any non-audit services.

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*Information Rights.* Subject to confidentiality and nondisclosure obligations, TD, for so long as it owns at least 15% of the outstanding shares of TD Ameritrade common stock, will be entitled to access to and information regarding TD Ameritrade's business, operations and plans as TD may reasonably require to appropriately manage and evaluate its investment in TD Ameritrade and to comply with its obligations under U.S. and Canadian laws.

*Obligation to Repurchase Shares.* If, at any time after the completion of the acquisition of TD Waterhouse, TD Ameritrade issues shares of its common stock pursuant to any compensation or similar program or arrangement, then TD Ameritrade will, subject to certain exceptions, use its reasonable efforts to repurchase a corresponding number of shares of its common stock in the open market within 120 days after any such issuance.

*Non-Competition Covenants.* Subject to specified exceptions described in further detail below in *Certain Agreements Related to the Acquisition of TD Waterhouse* *Stockholders Agreement* *Non-Competition Covenants* (beginning on page 95) the stockholders agreement generally provides that none of TD, J. Joe Ricketts, so long as he is a director of TD Ameritrade, or any of their respective affiliates may participate in or own any portion of a business engaged in the business of providing securities brokerage services in the U.S. (or, solely in the case of Mr. Ricketts and his affiliates, in Canada) to retail traders, individual investors and registered investment advisors. If TD acquires indirectly such a competing business as a result of its acquisition of a non-competing business, TD must offer to sell the competing business to TD Ameritrade at its appraised fair value as determined in accordance with the terms of the stockholders agreement. If TD Ameritrade decides not to purchase the competing business, TD must use commercially reasonable efforts to divest the competing business within two years. Mr. Ricketts, TD and their affiliates will be permitted under the terms of the stockholders agreement to own a passive investment representing less than 2% of a class of equity securities of a competing business so long as the class of equity securities is traded on a national securities exchange in the U.S. or the Toronto Stock Exchange or quoted on the Nasdaq National Market. TD also will be permitted to engage in certain activities in the ordinary course of its banking and securities businesses. In addition, Ameritrade has agreed that it will not hold or acquire control of a bank or similar depository institution except (1) incidentally in connection with the acquisition of an entity not principally engaged in the banking business or (2) in the event that TD does not hold control of any bank or similar depository institution which is able to offer money market deposit accounts to clients of TD Ameritrade as a designated sweep vehicle or TD has indicated that it is not willing to offer such accounts to clients of TD Ameritrade through one or more of any banks or similar depository institutions it controls.

*Termination of the Stockholders Agreement.* The stockholders agreement will terminate (1) with respect to the Ricketts holders, when their aggregate ownership of TD Ameritrade common stock falls below approximately 4%, and (2) upon the earliest to occur of (a) the consummation of a merger or tender offer where TD acquires 100% of the TD Ameritrade common stock, (b) the tenth anniversary of the consummation of the acquisition of TD Waterhouse, (c) the date on which TD's ownership of TD Ameritrade common stock falls below approximately 4% of the outstanding voting securities of TD Ameritrade, (d) the commencement by a third party of a tender offer or exchange offer for not less than 25% of TD Ameritrade common stock unless the TD Ameritrade board recommends against such tender offer or exchange offer and continues to take steps to oppose such tender offer or exchange offer, (e) the approval by the TD Ameritrade board of a business combination that would result in another party owning 25% of the voting securities or consolidated assets of TD Ameritrade or which would otherwise result in a change of control of TD Ameritrade, or (f) the acquisition of 20% of the voting securities of TD Ameritrade by a third party. For a period of up to one year following a termination under (2)(d), (2)(e) or (2)(f) above, TD and the Ricketts holders will be prohibited from acquiring shares of TD Ameritrade common stock that would cause, in the case of TD, its aggregate ownership to exceed 45% (39.9% in the first three years following the completion of the acquisition of TD Waterhouse) or, in the case of the Ricketts holders, 29%, except pursuant to a tender offer or merger for 100% of the outstanding shares of TD Ameritrade common stock approved by the holders of a majority of the outstanding shares of TD Ameritrade common stock (other than the Ricketts holders and TD). In addition, during that one-year

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period, the provisions of the stockholders agreement relating to the designation of directors and certain other provisions will remain in effect.

**Regulatory Approvals Required for the Acquisition of TD Waterhouse (see page 65)**

TD and Ameritrade are required, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, to notify and furnish required information to the Antitrust Division of the U.S. Department of Justice and to the U.S. Federal Trade Commission prior to completing the acquisition of TD Waterhouse. We and TD have made these filings, but the acquisition of TD Waterhouse cannot be completed until the required waiting period has expired or been earlier terminated.

TD and Ameritrade have furnished certain information to the NASD regarding the acquisition of TD Waterhouse in compliance with applicable requirements under NASD Membership and Registration Rules. The change of equity ownership of TD's and Ameritrade's broker-dealer subsidiaries resulting from the acquisition of TD Waterhouse requires NASD approval.

TD and Ameritrade have furnished certain information to the New York Stock Exchange regarding the acquisition of TD Waterhouse in compliance with applicable requirements under New York Stock Exchange Membership Rules. The closing of the acquisition of TD Waterhouse is subject to the furnished information being posted in the New York Stock Exchange's weekly bulletin to members. The furnished information must be posted for two consecutive weeks before the closing of the acquisition of TD Waterhouse can occur.

Under the Canadian Bank Act, TD is required to obtain the prior approval of the Canadian Minister of Finance to acquire beneficial ownership of more than 10% of the voting shares of Ameritrade, or to subsequently acquire any shares that would result in an increase in the size of its investment. TD has applied for the required approvals.

**Accounting Treatment of the Acquisition of TD Waterhouse (see page 64)**

The acquisition of TD Waterhouse will be accounted for using the purchase method of accounting under Statement of Financial Accounting Standards No. 141, *Business Combinations*. Ameritrade is the acquiring entity. Under the purchase method of accounting, the aggregate cost of the acquired entity, TD Waterhouse, will be allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values, with any excess being recognized as goodwill. Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, goodwill will not be amortized, but will be subject to an impairment test at least annually.

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The following table presents historical per share data for Ameritrade and TD Waterhouse and pro forma per share data of TD Ameritrade after giving effect to the acquisition of TD Waterhouse, the sale of Ameritrade Canada, the Reorganization and the special dividend. The TD Ameritrade pro forma per share data was derived by combining information from the historical consolidated financial statements of Ameritrade and TD Waterhouse using the purchase method of accounting for the acquisition of TD Waterhouse. You should read this table in conjunction with the historical audited and unaudited consolidated financial statements of Ameritrade that are filed with the SEC and incorporated by reference in this document and the historical consolidated financial statements of TD Waterhouse contained elsewhere in this document. See *Where You Can Find More Information* beginning on page 188 and *TD Waterhouse Management's Discussion and Analysis of Financial Condition and Results of Operations* beginning on page 162. You should not rely on the pro forma per share data as being necessarily indicative of actual results had the acquisition of TD Waterhouse occurred in the past, or of future results.

The pro forma per share data does not reflect revenue opportunities and cost savings that we expect to realize after the acquisition of TD Waterhouse. No assurance can be given with respect to the estimated revenue opportunities and operating cost savings that are expected to be realized as a result of the acquisition of TD Waterhouse. The pro forma per share data does not reflect restructuring or exit costs that may be incurred by Ameritrade or TD Waterhouse in connection with the acquisition of TD Waterhouse.

	<b>Ameritrade Historical</b>	<b>TD Waterhouse Historical</b>	<b>TD Ameritrade Pro Forma(3)</b>
<b>Earnings per share basic:</b>			
Fiscal year ended September 24, 2004	\$ 0.65	(1)	\$ 0.37
Nine months ended June 24, 2005	\$ 0.59	(1)	\$ 0.31
<b>Earnings per share diluted:</b>			
Fiscal year ended September 24, 2004	\$ 0.64	(1)	\$ 0.36
Nine months ended June 24, 2005	\$ 0.58	(1)	\$ 0.31
<b>Cash dividends per share:</b>			
Fiscal year ended September 24, 2004			
Nine months ended June 24, 2005			
Book value per share as of June 24, 2005	\$ 3.47	\$8.00(2)	\$ 1.81

- (1) TD Waterhouse is not a publicly traded company and, accordingly, no information is presented regarding its earnings per share.
- (2) TD Waterhouse's historical book value per share is as of April 30, 2005.
- (3) TD Ameritrade's pro forma data includes the effect of the acquisition of TD Waterhouse, the sale of Ameritrade Canada, the Reorganization and the special dividend on the basis described in the notes to the unaudited pro forma combined condensed financial statements included elsewhere in this document.

**Table of Contents****Per Share Market Price Data**

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

The closing sale price of Ameritrade common stock as reported on the Nasdaq National Market on June 21, 2005, the date prior to the public announcement of the proposed acquisition of TD Waterhouse, was \$14.82 per share. The closing sale price of Ameritrade common stock as reported on the Nasdaq National Market on September 2, 2005 was \$20.06 per share. As of that date there were 655 holders of record of Ameritrade 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 Ameritrade common stock because most stock is held in the name of nominees. There are a substantially greater number of beneficial holders of Ameritrade common stock.

**Ameritrade Common Stock Price (in \$)**

	<b>For the Fiscal Year Ending September 30, 2005</b>		<b>For the Fiscal Year Ended September 24, 2004</b>		<b>For the Fiscal Year Ended September 26, 2003</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
<b>First Quarter</b>	14.61	11.21	14.67	11.16	5.73	3.30
<b>Second Quarter</b>	14.38	10.02	17.67	13.40	6.40	3.83
<b>Third Quarter</b>	19.00	9.91	16.38	10.25	8.93	4.88
<b>Fourth Quarter(1)</b>	20.68	18.04	12.73	9.35	13.24	7.15

(1) Per share data for the fourth quarter of fiscal year 2005 is through September 7, 2005.

**Table of Contents****Summary Selected Historical Consolidated Financial Data of TD Waterhouse**

The following information is being provided to aid in your analysis of the financial aspects of the acquisition of TD Waterhouse. TD Waterhouse derived this financial information from audited consolidated financial statements of TD Waterhouse for fiscal years 2002 through 2004 and from unaudited consolidated financial statements for fiscal years ended 2000 and 2001 and for the six months ended April 30, 2005 and April 30, 2004. The consolidated financial statements for the fiscal years 2000 and 2001 have not been restated for the July 1, 2002 acquisition of the full service brokerage and financial planning operations of TD Securities, Inc. and TD Investment Services, Inc., which was accounted for as a merger of entities under common control, because it was impracticable to obtain the required information. In the opinion of TD Waterhouse's management, the unaudited consolidated interim period information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results of operations and financial condition as of and for the six months ended April 30, 2005 and April 30, 2004. Results for interim periods should not be considered indicative of results for any other periods or for the year.

This information is only a summary. You should read it along with TD Waterhouse's historical audited and unaudited consolidated financial statements contained in this proxy statement and related notes and the section titled TD Waterhouse Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 162 of this proxy statement.

	Six Months Ended April 30			Years Ended October 31			
	2005	2004	2004	2003(2) (Restated)	2002(2) (Restated)	2001(1) (Restated)	2000(1) (Restated)
	(In thousands)			(In thousands)			
<b>Consolidated Statements of Income Data</b>							
Revenues:							
Commissions and fees	\$ 357,385	\$ 408,613	\$ 681,944	\$ 653,154	\$ 573,638	\$ 594,500	\$ 997,490
Mutual fund and related revenue	110,300	106,294	202,735	144,713	113,734	133,466	117,442
Gain on principal transactions	12,489	16,805	33,973	21,116			19,923
Other	73,254	61,216	124,973	90,153	169,758	87,810	70,931
Total non-interest revenue	553,428	592,928	1,043,625	909,136	857,130	815,776	1,205,786
Interest revenue	367,992	223,166	478,122	384,814	372,612	783,272	1,160,748
Interest expense	125,739	57,237	125,263	103,486	96,444	433,727	713,630
Net interest income	242,253	165,929	352,859	281,328	276,168	349,545	447,118
Net revenues	795,681	758,857	1,396,484	1,190,464	1,133,298	1,165,321	1,652,904
Operating expenses:							
Employee compensation and benefits	306,921	263,216	527,229	456,597	372,557	386,837	430,643

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Floor brokerage, exchange and clearing fees	71,473	58,384	104,596	86,472	53,125	116,763	141,183
Occupancy	37,550	32,140	68,448	71,832	66,650	62,908	56,015
Advertising and promotion	63,822	56,683	91,293	66,788	91,123	74,047	108,386
Depreciation and amortization	26,218	27,146	56,231	55,743	57,399	59,680	37,190
Equipment	18,087	19,100	39,012	37,782	46,992	55,316	37,039
Communications and data processing	26,249	30,611	57,543	77,356	82,529	90,443	125,221
Amortization of goodwill						45,912	42,099
Professional fees	29,725	27,821	58,294	42,973	41,902	50,938	53,633
Stationery and postage	21,324	19,610	37,045	33,789	37,653	39,039	50,190
Other	25,662	48,144	103,778	101,755	190,171	97,389	126,183
<b>Total expenses</b>	<b>627,031</b>	<b>582,855</b>	<b>1,143,469</b>	<b>1,031,087</b>	<b>1,040,101</b>	<b>1,079,272</b>	<b>1,207,782</b>
<b>Income before income taxes and minority interest</b>	<b>168,650</b>	<b>176,002</b>	<b>253,015</b>	<b>159,377</b>	<b>93,197</b>	<b>86,049</b>	<b>445,122</b>
Income tax provision	62,372	65,319	85,793	53,881	44,492	51,129	194,645
<b>Income after taxes before minority interest</b>	<b>106,278</b>	<b>110,683</b>	<b>167,222</b>	<b>105,496</b>	<b>48,705</b>	<b>34,920</b>	<b>250,477</b>
Minority interest in subsidiary	6,406	6,945	9,150	5,828	1,386		
<b>Income from continuing operations</b>	<b>99,872</b>	<b>103,738</b>	<b>158,072</b>	<b>99,668</b>	<b>47,319</b>	<b>34,920</b>	<b>250,477</b>
<b>Discontinued operations</b>							
Loss from discontinued operations				(64,661)	(16,896)	(10,081)	(9,123)
Income tax benefit				(9,751)	(5,010)	(2,362)	(2,731)
<b>Loss on discontinued operations</b>				<b>(54,910)</b>	<b>(11,886)</b>	<b>(7,719)</b>	<b>(6,392)</b>
<b>Net income</b>	<b>\$ 99,872</b>	<b>\$ 103,738</b>	<b>\$ 158,072</b>	<b>\$ 44,758</b>	<b>\$ 35,433</b>	<b>\$ 27,201</b>	<b>\$ 244,085</b>

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	April 30			October 31			
	2005	2004	2004	2003(2) (Restated)	2002(2) (Restated)	2001(1) (Restated)	2000(1) (Restated)
	(In thousands)			(In thousands)			
<b>Consolidated Statements of Financial Condition Data:</b>							
Cash and cash equivalents	\$ 248,362	\$ 160,215	\$ 222,716	\$ 420,825	\$ 331,514	\$ 487,832	\$ 980,195
Receivables from customers	5,305,206	5,256,604	5,069,332	4,438,506	2,942,819	3,384,159	7,978,551
Trading securities owned, at market value	2,069,994	1,587,494	1,873,353	1,573,351	576,654	736,090	138,515
Securities purchased under agreement to resell	837,039	1,374,623	1,515,855	1,492,896	1,831,166	1,164,781	617,031
Securities available for sale	8,204,527	5,920,602	6,940,966	5,335,376	3,935,200	4,137,111	3,968,657
Securities held to maturity	2,133,620	2,510,218	2,831,595	1,249,852	1,620,151	1,501,306	1,029,127
Total assets	20,227,155	18,245,807	19,918,457	15,939,709	13,090,681	12,831,019	16,339,155
Interest bearing deposits	9,398,500	7,854,875	8,631,570	5,807,827	5,341,772	5,535,102	5,006,328
Deposits received for securities loaned	1,260,836	1,191,149	1,081,561	909,460	72,974	279,525	4,111,677
Payable to customers	5,503,917	5,252,376	5,391,422	5,337,499	4,303,569	3,753,689	2,847,789
Total stockholders equity	2,823,589	2,791,757	2,894,456	2,700,835	2,599,690	2,589,557	2,568,983

(1) The financial information for the fiscal years 2000 and 2001 reflects consolidated TD Waterhouse Holdings, Inc., the predecessor of TD Waterhouse. TD Waterhouse Holdings, Inc. contains the same operating companies as TD

Waterhouse restated to correct TD Waterhouse's method of accounting for leases, but does not reflect the merger of certain entities under common control.

- (2) The October 31, 2003 and October 31, 2002 consolidated financial statements have been restated to correct TD Waterhouse's accounting for leases, stock compensation, certain intercompany eliminations, the 2002 disposition of two wholly owned subsidiaries, other adjustments that had no effect on net income and were not material to the consolidated financial statements and the July 1, 2002 acquisition of the full service brokerage and financial planning operations of TD Securities, Inc. and TD Investment Services, Inc. by TD Waterhouse Canada Inc.

**Table of Contents****Summary Selected Historical Consolidated Financial Data of Ameritrade**

The following information is being provided to aid in your analysis of the financial aspects of the acquisition of TD Waterhouse. Ameritrade derived its financial information from audited financial statements for the fiscal years 2000 through 2004 and from unaudited financial statements for the nine months ended June 24, 2005 and June 25, 2004. In the opinion of Ameritrade's management, this unaudited interim period information reflects all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results of operations and financial condition for the nine months ended June 24, 2005 and June 25, 2004. Results for interim periods should not be considered indicative of results for any other periods or for the year. Fiscal year 2000 was a 53-week year. All other fiscal years presented were 52-week years.

This information is only a summary. You should read it along with Ameritrade's historical audited and unaudited financial statements and related notes and the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Ameritrade's annual reports, quarterly reports and other information on file with the SEC and incorporated by reference into this document. See "Where You Can Find More Information" beginning on page 188.

	Nine Months Ended			Fiscal Year Ended			
	June 24, 2005	June 25, 2004	Sept. 24, 2004	Sept. 26, 2003	Sept. 27, 2002	Sept. 28, 2001	Sept. 29, 2000

(In thousands, except per share amounts)

**Consolidated  
Statements of  
Operations Data:**

## Revenues:

Commissions and clearing fees	\$ 394,596	\$ 457,635	\$ 560,052	\$ 472,760	\$ 252,526	\$ 269,384	\$ 389,742
Interest revenue	366,797	200,144	278,550	184,175	128,649	208,479	260,479
Brokerage interest expense	93,526	26,768	41,861	33,192	24,564	60,896	91,679
Net interest revenue	273,271	173,376	236,689	150,983	104,085	147,583	168,800
Other	60,973	62,285	83,372	89,511	74,182	37,763	21,890
Net revenues	728,840	693,296	880,113	713,254	430,793	454,730	580,432

## Expenses:

Employee compensation and benefits	130,811	118,588	154,792	172,159	133,897	144,820	144,198
Clearing and execution costs	20,081	24,155	30,610	35,711	19,086	18,252	17,718
Communications	27,203	31,382	39,853	41,420	31,429	33,880	36,230
Occupancy and equipment costs	33,018	32,080	42,353	57,091	57,060	63,661	48,480
Depreciation and	17,543	17,458	23,224	31,708	27,945	36,033	21,624

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amortization							
Professional services	26,722	24,053	27,381	31,121	25,753	42,502	55,574
Interest on borrowings	1,503	1,959	2,581	5,076	5,110	11,067	16,412
(Gain)/loss on disposal of property	(220)	(575)	1,166	(5,093)	403	999	(552)
Other	13,146	16,607	16,632	20,298	12,583	11,241	15,117
Advertising	72,307	80,414	100,364	90,415	72,638	148,009	241,169
Gain on sale of investments						(9,692)	
Restructuring and asset impairment charges				5,991	63,406	38,268	4,726
Debt conversion expense						62,082	
Total expenses	342,114	346,121	438,956	485,897	449,310	601,122	600,696
Pre-tax income (loss)	386,726	347,175	441,157	227,357	(18,517)	(146,392)	(20,264)
Provision for (benefit from) income taxes	148,489	132,023	168,810	90,715	10,446	(55,215)	(6,638)
Net income (loss)	\$ 238,237	\$ 215,152	\$ 272,347	\$ 136,642	\$ (28,963)	\$ (91,177)	\$ (13,626)

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	Nine Months Ended			Fiscal Year Ended			
	June 24, 2005	June 25, 2004	Sept. 24, 2004	Sept. 26, 2003	Sept. 27, 2002	Sept. 28, 2001	Sept. 29, 2000
<b>(In thousands, except per share amounts)</b>							
Basic earnings (loss) per share	\$ 0.59	\$ 0.51	\$ 0.65	\$ 0.32	\$ (0.13)	\$ (0.49)	\$ (0.08)
Diluted earnings (loss) per share	\$ 0.58	\$ 0.50	\$ 0.64	\$ 0.32	\$ (0.13)	\$ (0.49)	\$ (0.08)
Weighted average shares outstanding basic	403,911	420,599	417,629	427,376	227,327	185,830	175,025
Weighted average shares outstanding diluted	412,250	430,386	426,972	432,480	227,327	185,830	175,025
	<b>As of</b>			<b>As of</b>			
	June 24, 2005	June 25, 2004	Sept. 24, 2004	Sept. 26, 2003	Sept. 27, 2002	Sept. 28, 2001	Sept. 29, 2000

**Consolidated  
Balance Sheet  
Data:**

Cash, short-term investments and segregated cash and investments	\$ 8,045,213	\$ 7,820,536	\$ 7,957,917	\$ 8,127,044	\$ 5,863,507	\$ 2,068,391	\$ 338,307
Receivable from clients and correspondents, net	3,440,170	3,373,808	3,100,572	2,202,170	1,419,469	971,823	2,926,981
Total assets	16,505,871	15,548,016	15,277,021	14,404,268	9,800,841	3,653,871	3,798,236
Payable to clients and correspondents	10,251,193	10,315,671	10,322,539	9,611,243	6,374,644	2,777,916	2,618,157
Long-term obligations	39,058	37,394	37,803	82,489	47,645	70,145	275,000
Stockholders equity	1,402,123	1,187,452	1,210,908	1,235,774	1,098,399	371,433	264,168

**Table of Contents****Selected Unaudited Pro Forma Combined Condensed Financial Data of TD Ameritrade**

The following describes the pro forma effect of the acquisition of TD Waterhouse on (1) the balance sheet data of Ameritrade and TD Waterhouse as of June 24, 2005 and (2) the statements of operations data of Ameritrade and TD Waterhouse for the fiscal year ended September 24, 2004 and the nine months ended June 24, 2005.

This information is only a summary. You should read the unaudited pro forma combined condensed financial statements and other information and the accompanying notes that are included elsewhere in this document.

You should also read the historical information and related notes of Ameritrade that are incorporated by reference into this document and the historical financial statements and related notes for TD Waterhouse contained elsewhere in this document.

The unaudited pro forma combined condensed balance sheet data and the unaudited pro forma combined condensed statements of operations data show the estimated effects of the acquisition of TD Waterhouse as if it had occurred on June 24, 2005 and September 26, 2003, respectively. We are providing the unaudited pro forma combined condensed financial data for informational purposes only. It does not necessarily represent or indicate what the financial position and results of operations of TD Ameritrade would actually have been had the acquisition of TD Waterhouse and other pro forma adjustments in fact occurred at the dates indicated. It also does not necessarily represent or indicate the future financial position or results of operations TD Ameritrade will achieve after the acquisition of TD Waterhouse.

The pro forma results of operations do not reflect revenue opportunities and cost savings that we expect to realize after the acquisition of TD Waterhouse. No assurance can be given with respect to the estimated revenue opportunities and operating cost savings that are expected to be realized as a result of the acquisition of TD Waterhouse. The pro forma financial information does not reflect restructuring or exit costs that may be incurred by Ameritrade or TD Waterhouse in connection with the acquisition of TD Waterhouse.

**TD Ameritrade Pro Forma**

<b>Fiscal Year Ended September 24, 2004</b>	<b>Nine Months Ended June 24, 2005</b>
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(In thousands, except per share data)

**Statement of Operations Data:**

Net revenues	\$ 1,605,498	\$ 1,262,880
Net income from continuing operations	226,178	187,721
Earnings per share basic	0.37	0.31
Earnings per share diluted	0.36	0.31

**TD Ameritrade  
Pro Forma  
As of June 24,  
2005**

(In thousands)

**Balance Sheet Data:**

Total assets	\$ 22,124,469
Long-term obligations	1,969,058
Stockholders equity	1,080,529



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**RISK FACTORS**

*In addition to the other information included or incorporated by reference in this proxy statement, you should carefully consider the matters described below relating to the proposed acquisition of TD Waterhouse in deciding whether to vote for approval of the proposals presented in this proxy statement. Additional risks and uncertainties not presently known to Ameritrade or that are not currently believed to be material, if they occur, also may adversely affect the proposed acquisition of TD Waterhouse and Ameritrade and TD Waterhouse as a combined company.*

***Although Ameritrade expects that the acquisition of TD Waterhouse will result in benefits to Ameritrade, the combined company may not realize those benefits because of integration difficulties and other challenges.***

The failure of the combined company 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 and additional revenue opportunities, could seriously harm the results of operations of the combined company. Realizing the benefits of the acquisition of TD Waterhouse will depend in part on 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 the businesses of Ameritrade and TD Waterhouse.

The challenges involved in this integration include the following:

demonstrating to the clients of Ameritrade and to the clients of TD Waterhouse that the acquisition 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;

combining product offerings;

coordinating sales and marketing efforts to effectively communicate the capabilities of the combined company;

integrating and rationalizing settlement and account and order management systems;

preserving marketing and other important relationships of both Ameritrade and TD Waterhouse and resolving potential conflicts that may arise;

integrating and rationalizing TD Waterhouse's branch operations to serve the combined client base of TD Ameritrade;

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

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

The combined company may not successfully integrate the operations of Ameritrade and TD Waterhouse in a timely manner, or at all, and the combined company may not realize the anticipated benefits or synergies of the acquisition of TD Waterhouse to the extent, or in the timeframe, anticipated. 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, the combined company's ability to realize these benefits and synergies could be adversely impacted by practical or legal constraints on its ability to combine operations or implement workforce reductions.

**Table of Contents*****The market price of TD Ameritrade common stock may decline as a result of the acquisition of TD Waterhouse.***

The market price of TD Ameritrade common stock may decline as a result of the acquisition of TD Waterhouse if, among other things, the integration of the Ameritrade and TD Waterhouse businesses is unsuccessful, if the operational cost savings estimates are not realized, if the transaction costs related to the acquisition of TD Waterhouse are greater than expected or if the financing of the special dividend is on unfavorable terms. The market price also may decline if we do not achieve the perceived benefits of the acquisition of TD Waterhouse as rapidly or to the extent anticipated by financial or industry analysts or if the effect of the acquisition of TD Waterhouse on TD Ameritrade's financial results is not consistent with the expectations of financial or industry analysts. In addition, as is typical in such circumstances, we anticipate that the market price of our common stock will decline following the payment of the special dividend.

***TD and the Ricketts holders will exercise significant influence over TD Ameritrade.***

When the acquisition of TD Waterhouse is completed, TD will own approximately 32%, and the Ricketts holders will own approximately 18%, of the outstanding shares of Ameritrade common stock. Following the completion of the acquisition of TD Waterhouse, TD will commence a tender offer with the goal of increasing its ownership to 39.9% of the outstanding shares of Ameritrade common stock. J. Joe Ricketts may elect to participate as a co-bidder in the tender offer with TD or otherwise purchase shares of TD Ameritrade common stock, such that the Ricketts holders own up to 29% of the outstanding shares of Ameritrade common stock. TD will be permitted under the terms of the stockholders agreement to acquire up to 39.9% of the outstanding shares of TD Ameritrade common stock during the three years following the closing, up to 45% 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 Ameritrade following the termination of the stockholders agreement. As a result, TD and the Ricketts holders generally will 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. It is expected that after the acquisition of TD Waterhouse a significant number of the directors on the TD Ameritrade board will be 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 post-transaction amended

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and restated certificate of incorporation will contain provisions relating to 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.

***Ameritrade will incur significant indebtedness in connection with the transaction.***

In connection with payment of the special dividend, Ameritrade will be required to borrow approximately \$1.6 to \$2.0 billion. It is a condition to the completion of the transaction that Ameritrade shall have available to it sufficient funds, and shall be permitted under applicable law, to pay the special dividend, and that Ameritrade declares the dividend. Although Ameritrade currently expects that such financing will be available on commercially reasonable terms, there can be no assurance of this. Following the completion of the acquisition of TD Waterhouse, TD Ameritrade's ability to meet its cash requirements, including its debt service obligations, will be dependent upon its future performance, which will be subject to financial, business and other factors affecting its operations, many of which are or may be beyond TD Ameritrade's control. Ameritrade cannot provide assurance that its business will generate sufficient cash flows from operations to fund these cash requirements and debt service obligations. If TD Ameritrade is unable to meet its cash requirements from operations, it would be required to fund these cash requirements by alternative financing. The degree to which it 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 its ability to obtain financing for working capital, acquisitions or other purposes, could make it more vulnerable to industry downturns and competitive pressures or could limit its flexibility in planning for, or reacting to, changes and opportunities in its industry, which may place it at a competitive disadvantage. There can be no assurance that TD Ameritrade would be able to obtain alternative financing, that any such financing would be on acceptable terms or that it would be permitted to do so under the terms of existing financing arrangements, including those entered into in connection with the payment of the special dividend. In the absence of such financing, TD Ameritrade's ability to respond to changing business and economic conditions, make future acquisitions, react to adverse operating results, meet its debt service obligations, or fund required capital expenditures, could be materially and adversely affected.

***Some directors and executive officers of Ameritrade have interests in the acquisition of TD Waterhouse that may differ from the interests of Ameritrade stockholders including, if the acquisition of TD Waterhouse is completed, the receipt of financial and other benefits.***

When considering our board of directors' recommendation to vote in favor of the proposals presented in this proxy statement, you should be aware that Ameritrade's executive officers and directors have interests in the acquisition of TD Waterhouse that may be different from, or in addition to, your interests.

For example, Ameritrade is currently negotiating a new employment agreement with Mr. Moglia with respect to his continued employment as our Chief Executive Officer. In addition, Ameritrade may negotiate and enter into prior to the closing, and after consultation with TD, new or amended employment agreements with other executive officers.

In connection with the acquisition of TD Waterhouse, directors and executive officers of Ameritrade, who beneficially own approximately 125,509,352 shares of Ameritrade common stock as of September 2, 2005 will receive an aggregate of approximately \$753.1 million as a result of the payment of proposed special dividend of \$6.00 per share assuming the timely exercise of all vested options. The beneficial ownership of directors and executive officers of Ameritrade includes options to purchase 15,011,909 shares of Ameritrade common stock exercisable within 60 days of September 2, 2005. In connection with the proposed special dividend, Ameritrade will adjust outstanding equity awards under its stock option plans to preserve the pre-dividend economic value of the awards after payment of the special dividend. As of

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September 2, 2005, directors and executive officers of Ameritrade collectively held options (vested and unvested) to purchase 16,414,002 shares of common stock. These options will be adjusted unless exercised prior to the ex-dividend date.

In addition, under the terms of the stockholders agreement, the Ricketts holders will have, among other things, specified rights relating to board representation and the ability to acquire additional Ameritrade common stock to maintain their ownership position. J. Joe Ricketts may also elect, following the closing of the acquisition of TD Waterhouse, to participate in a tender offer with TD, such that upon completion of the tender offer, the Ricketts holders may own up to 29% of the outstanding voting securities of TD Ameritrade.

Further, under the terms of the amended and restated registration rights agreement, the Ricketts holders and some of the other Ameritrade directors or their affiliates will continue to be entitled to registration rights with respect to their securities of TD Ameritrade. See *The Transaction Interests of Ameritrade's Executive Officers and Directors in the Transaction* beginning on page 60.

***The acquisition of TD Waterhouse is subject to the receipt of consents and approvals from government entities that may not be received or that may impose conditions that could have an adverse effect on TD Ameritrade following the completion of the acquisition.***

Ameritrade and TD cannot complete the acquisition of TD Waterhouse unless they receive various consents, orders, approvals and clearances from antitrust and other authorities in the U.S. and Canada. While Ameritrade and TD believe that they will receive the requisite regulatory approvals from these authorities, there can be no assurance of this. In addition, these authorities may impose conditions on the completion of the acquisition of TD Waterhouse or require changes to the terms of the acquisition of TD Waterhouse. For example, the authorities may require divestiture of certain assets as a condition of closing of the acquisition of TD Waterhouse. Neither TD nor Ameritrade is obligated to agree to divest material assets in order to obtain regulatory approval of the proposed acquisition of TD Waterhouse. While TD and Ameritrade do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the acquisition of TD Waterhouse or imposing additional costs on or limiting the revenues of Ameritrade following the acquisition of TD Waterhouse, any of which may have an adverse effect on Ameritrade following the acquisition of TD Waterhouse. See *The Transaction Regulatory Matters Related to the Acquisition of TD Waterhouse* beginning on page 65 and *Share Purchase Agreement Conditions to the Acquisition of TD Waterhouse* beginning on page 85.

***The stock price and business of Ameritrade may be adversely affected if the acquisition of TD Waterhouse is not completed.***

If the acquisition of TD Waterhouse is not completed, the price of Ameritrade common stock may decline to the extent that the current market price of Ameritrade common stock reflects market expectations that the acquisition of TD Waterhouse will be completed. In addition, Ameritrade's business and operations may be harmed to the extent that there is client and employee uncertainty surrounding the future strategy of Ameritrade on a standalone basis. Completion of the acquisition of TD Waterhouse is subject to several closing conditions, including obtaining requisite regulatory and Ameritrade stockholder approvals, and Ameritrade and TD may be unable to obtain such approvals on a timely basis or at all. If the acquisition of TD Waterhouse is not completed, Ameritrade would not derive the strategic benefits expected to result from the acquisition of TD Waterhouse. Ameritrade would also be required to pay significant costs incurred in connection with the acquisition of TD Waterhouse, whether or not the acquisition of TD Waterhouse is completed. Moreover, under specified circumstances described in the section entitled *Share Purchase Agreement Effect of Termination* beginning on page 87 of this proxy statement, Ameritrade may be required to pay TD a termination fee of \$97 million in connection with the termination of the share purchase agreement.

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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

Some of the statements contained or incorporated by reference in this proxy statement, including those relating to Ameritrade's strategies and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as expects, anticipates, intends, plans, believes, estimates or similar expressions, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, and Section 27A of the U.S. Securities Act of 1933, or the Securities Act. Without limiting the generality of the preceding sentence, statements contained in the sections Summary, The Transaction Ameritrade's Reasons for the Transaction, The Transaction Opinion of Ameritrade's Financial Advisors and The Transaction Litigation Relating to the Transaction include forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. For example, forward-looking statements include projections of earnings, revenues, synergies, accretion or other financial items; any statements of the plans, strategies and objectives of management for future operations, including the execution of integration and restructuring plans and the future management of TD Ameritrade; the tax treatment of the special dividend and estimates of Ameritrade's earnings and profits for tax purposes; approvals relating to, and the closing of, the acquisition of all of the capital stock of TD Waterhouse; any statements regarding future economic conditions or performance; statements of belief and any statement of assumptions underlying any of the foregoing; statements relating to Ameritrade obtaining financing for the special dividend; and the dates on which we anticipate the record date, payable date and ex-dividend date for the special dividend to occur.

These statements are not historical facts, but instead represent only Ameritrade's or TD's expectations, estimates and projections regarding future events.

The forward-looking statements contained or incorporated by reference in this proxy statement are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. The future results and stockholder values of Ameritrade and TD Ameritrade may differ materially from those expressed in the forward looking statements contained or incorporated by reference in this proxy statement due to, among other factors, the matters set forth under Risk Factors beginning on page 30 and the risk factors detailed in Ameritrade's filings with the SEC, including Ameritrade's most recent annual and quarterly reports on Forms 10-K and 10-Q. Ameritrade undertakes no obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this proxy statement or to reflect the occurrence of unanticipated events, except as required by law.

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**THE SPECIAL MEETING**

**Date, Time and Place**

A special meeting of stockholders of Ameritrade will be held at \_\_\_\_\_, local time, on \_\_\_\_\_, 2005 at \_\_\_\_\_.

**Matters to be Considered**

The purposes of the special meeting are to consider and vote on:

*Proposal No. 1:* a proposal to approve the issuance of 193,600,000 shares of Ameritrade common stock to TD, and/or one or more of TD's affiliates, in accordance with the terms of the share purchase agreement;

*Proposal No. 2:* a proposal to approve the amendment and restatement of the certificate of incorporation of Ameritrade, with the following sub-proposals:

2A a proposal to approve provisions restricting the authority of TD Ameritrade to implement anti-takeover measures that would potentially conflict with the terms of the stockholders agreement entered into in connection with the proposed acquisition of TD Waterhouse;

2B a proposal to approve the increase of the authorized number of shares of common stock, \$0.01 par value per share, of TD Ameritrade from 650,000,000 to 1,000,000,000;

2C a proposal to approve a provision which prohibits action by written consent of stockholders of TD Ameritrade;

2D a proposal to approve a provision increasing the size of the board of directors from nine members to twelve members for so long as the corporate governance provisions of the stockholders agreement entered into in connection with the proposed acquisition of TD Waterhouse remain in effect, and thereafter to allow the size of the board of directors to be determined by the board of directors;

2E a proposal to approve a provision setting forth procedures for the nomination or appointment of outside independent directors to the TD Ameritrade board of directors and the maintenance of an outside independent directors committee and a non-TD directors committee; and

2F a proposal to approve a provision which allocates corporate opportunities between TD Ameritrade and TD and which otherwise modifies the existing corporate opportunities provision of the certificate of incorporation;

*Proposal No. 3:* a proposal to approve an amendment and restatement of the Ameritrade Holding Corporation 1996 Long-Term Incentive Plan to reserve an additional 19,000,000 shares of Ameritrade common stock for future issuance under the 1996 Long-Term Incentive Plan;

*Proposal No. 4:* a proposal to approve an amendment and restatement of the Ameritrade Holding Corporation 1996 Directors Incentive Plan to reserve an additional 1,000,000 shares of Ameritrade common stock for future issuance under the 1996 Directors Incentive Plan; and

*Proposal No. 5:* a proposal to adjourn the special meeting if necessary to permit further solicitation of proxies on all proposals if there are not sufficient votes at the time of the special meeting to approve Proposal No. 1 relating to the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement or Proposal No. 2 relating to the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals.

**The approval of Proposal No. 1 for the issuance of Ameritrade common stock and Proposal No. 2 for the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, is a condition to the completion of the acquisition of TD Waterhouse. Accordingly, if**



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**Ameritrade stockholders wish to approve the acquisition of TD Waterhouse, they must approve Proposal No. 1 relating to the approval of the issuance of Ameritrade common stock and Proposal No. 2 relating to the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals.**

At the special meeting, Ameritrade stockholders will also be asked to consider and vote on any other matters that may properly come before the special meeting or any adjournment or postponement of the special meeting.

At this time, the Ameritrade board of directors is unaware of any matters, other than those set forth above, that may properly come before the special meeting.

### **Record Date; Shares Outstanding and Entitled to Vote**

The close of business on \_\_\_\_\_, 2005 has been fixed by Ameritrade as the record date for the determination of holders of Ameritrade common stock entitled to notice of and to vote at the special meeting and any adjournment or postponement of the special meeting. At the close of business on the record date for the special meeting, there were \_\_\_\_\_ shares of Ameritrade common stock outstanding and entitled to vote. Each share of Ameritrade common stock entitles its holder to one vote at the special meeting on all matters properly presented at the meeting.

### **How to Vote Your Shares**

Stockholders of record may submit a proxy by telephone, via the Internet or by mail or vote by attending the special meeting and voting in person.

*Submitting a Proxy by Telephone:* You can submit a proxy for your shares by telephone until 11:59 p.m. Eastern Standard Time on \_\_\_\_\_, 2005 by calling the toll-free telephone number on your proxy card. Telephone proxy submission is available 24 hours a day. Easy-to-follow voice prompts allow you to submit a proxy for your shares and confirm that your instructions have been properly recorded. Our telephone proxy submission procedures are designed to authenticate stockholders by using individual control numbers. **IF YOU SUBMIT A PROXY BY TELEPHONE, YOU DO NOT NEED TO RETURN YOUR PROXY CARD.**

*Submitting a Proxy via the Internet:* You can submit a proxy via the Internet until 11:59 p.m. Eastern Standard Time on \_\_\_\_\_, 2005 by accessing the web site listed on your proxy card and following the instructions you will find on the web site. Internet proxy submission is available 24 hours a day. As with telephone proxy submission, you will be given the opportunity to confirm that your instructions have been properly recorded. **IF YOU SUBMIT A PROXY VIA THE INTERNET, YOU DO NOT NEED TO RETURN YOUR PROXY CARD.**

*Submitting a Proxy by Mail:* If you choose to submit a proxy by mail, simply mark the enclosed proxy card, date and sign it, and return it in the postage paid envelope provided.

If your shares are held in the name of a bank, broker or other nominee, you will receive instructions from the holder of record that you must follow for your shares to be voted. Please follow their instructions carefully. Also, please note that if the holder of record of your shares is a broker, bank or other nominee and you wish to vote in person at the special meeting, you must request a legal proxy from your bank, broker or other nominee that holds your shares and present that proxy and proof of identification at the special meeting.

### **How to Change Your Vote**

You will have the power to revoke your proxy at any time before it is exercised by:  
delivering to the Corporate Secretary of Ameritrade prior to the special meeting a written notice of revocation by mail to 4211 South 102nd Street, Omaha, Nebraska 68127;

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delivering to the Corporate Secretary of Ameritrade prior to the special meeting a properly executed proxy with a later date by mail to 4211 South 102nd Street, Omaha, Nebraska 68127;

submitting a proxy on a later date by telephone or via the Internet (only your last telephone or Internet proxy will be counted); or

attending the special meeting and voting in person.

Attendance at the special meeting will not, in and of itself, constitute revocation of a proxy.

If your shares of Ameritrade common stock are held by a bank, broker or other nominee, you must follow the instructions provided by the bank, broker or other nominee if you wish to change your vote.

**Counting Your Vote**

If you provide specific voting instructions, your shares will be voted as instructed. If you hold shares in your name and sign and return a proxy card or submit a proxy by telephone or via the Internet without giving specific voting instructions, your shares will be voted **FOR** approval of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement, **FOR** approval of the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, **FOR** approval of the amendment and restatement of the 1996 Long-Term Incentive Plan and 1996 Directors Incentive Plan and **FOR** approval of the proposal to adjourn the special meeting if necessary to permit further solicitation of proxies on all matters if there are not sufficient votes at the time of the special meeting to approve the proposals relating to the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals.

At this time, we are unaware of any matters, other than set forth above, that may properly come before the special meeting. If any other matters properly come before the special meeting, the persons named as proxies will vote in accordance with their judgment with respect to such matters.

Proxies solicited may be voted only at the special meeting and any adjournment or postponement of the special meeting and will not be used for any other meeting.

**Broker Non-Votes**

Any broker non-votes submitted by brokers or nominees in connection with the special meeting will not be counted for purposes of determining the number of votes cast on a proposal, but will be treated as present for quorum purposes. Broker non-votes are shares held by brokers or nominees as to which voting instructions have not been received from the beneficial owners or the persons entitled to vote those shares and the broker or nominee does not have discretionary voting power under rules applicable to broker-dealers. Under these rules, the proposal to approve the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement, the proposal to approve the amendment and restatement of our certificate of incorporation, including the related sub-proposals and the proposals to approve the amended and restated stock plans are not items on which brokerage firms may vote in their discretion on behalf of their clients if such clients have not furnished voting instructions within ten days of the special meeting. The proposals to approve the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amended and restated stock plans are required to be approved by the holders of a majority of the shares of Ameritrade common stock present or represented by proxy and voting on the applicable matter and therefore abstentions and broker non-votes will have no effect on these proposals. Similarly, because of the vote required for the proposal to adjourn the special meeting, abstentions and broker non-votes will have no effect on this proposal. However, the proposal to approve the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, is required to be approved by the holders of a majority of the outstanding shares of Ameritrade common stock (regardless of whether such holders are present in person or represented by proxy at the special meeting). Therefore, abstentions and broker non-

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votes will have the same effect as a vote against the proposal to approve the amendment and restatement of our certificate of incorporation, including the related sub-proposals, at the special meeting.

**Quorum and Required Votes**

A quorum, consisting of the holders of a majority of the issued and outstanding shares of Ameritrade common stock as of the record date of the special meeting, must be present in person or by proxy before any action may be taken at the special meeting. Abstentions will be treated as shares that are present for purposes of determining the presence of a quorum.

*Proposal No. 1:* The affirmative vote of the holders of a majority of the shares of Ameritrade common stock present in person or represented by proxy and voting on the matter is necessary to approve the issuance of Ameritrade common stock to TD, and/or one or more of TD's affiliates, in accordance with the terms of the share purchase agreement. **The approval of Proposal No. 1 is a condition to completion of the acquisition of TD Waterhouse, and thus a vote against this proposal effectively will be a vote against the acquisition of TD Waterhouse.**

*Proposal No. 2:* The required vote to approve the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, is the affirmative vote of the holders of a majority of the outstanding shares of Ameritrade common stock entitled to vote at the special meeting. The amendment and restatement of our certificate of incorporation, including all of the related sub-proposals, is an integral part of a single transaction agreed to by TD and Ameritrade and reflected in the share purchase agreement. **The approval of Proposal No. 2 (including each of the related Sub-Proposal Nos. 2A through 2F) is a condition to completion of the acquisition of TD Waterhouse, and thus a vote against this proposal (or against any of Sub-Proposal Nos. 2A through 2F) effectively will be a vote against the acquisition of TD Waterhouse.**

*Proposal No. 3:* The affirmative vote of the holders of a majority of the shares of Ameritrade common stock present in person or represented by proxy and voting on the matter is necessary to approve the amendment and restatement of the 1996 Long-Term Incentive Plan.

*Proposal No. 4:* The affirmative vote of the holders of a majority of the shares of Ameritrade common stock present in person or represented by proxy and voting on the matter is necessary to approve the amendment and restatement of the 1996 Directors Incentive Plan.

*Proposal No. 5:* The affirmative vote of the holders of a majority of the shares of Ameritrade common stock present in person or represented by proxy and voting on the matter is required to approve the proposal to adjourn the special meeting if necessary to permit further solicitation of proxies on all matters if there are not sufficient votes at the time of the special meeting to approve Proposal No. 1 or Proposal No. 2, including each of the related sub-proposals.

The directors and executive officers of Ameritrade and their respective affiliates collectively owned approximately 30% of the outstanding shares of Ameritrade common stock as of September 2, 2005 (inclusive of shares subject to stock options which may be exercised within 60 days following that date). Each member of the board of directors of Ameritrade has advised Ameritrade that he intends to vote all of the shares of Ameritrade common stock held, directly or indirectly, by him in favor of each of the above proposals (including each of the related sub-proposals). See "Stock Ownership of Certain Beneficial Owners and Management of Ameritrade" beginning on page 184.

The Ricketts holders, the TA holders and SLP holders, which collectively own approximately 34% of the outstanding shares of Ameritrade common stock as of September 2, 2005, have agreed to vote their shares in favor of the issuance of Ameritrade common stock to TD and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals. Several members of our board of directors are affiliated with the Ricketts holders and entities affiliated with Silver Lake Partners.

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As of the close of business on the record date for the special meeting, TD did not beneficially own any shares of Ameritrade common stock and, to the knowledge of TD, none of its directors or executive officers beneficially owned any shares of Ameritrade common stock.

**Solicitation of Proxies**

Ameritrade will pay for all costs incurred by it in connection with the solicitation of proxies from its stockholders on behalf of its board of directors. In addition to solicitation by mail, the directors, officers and employees of Ameritrade, TD and their respective subsidiaries may solicit proxies from stockholders of Ameritrade in person or by telephone, telegram, facsimile or other electronic methods without additional compensation other than reimbursement for their actual expenses.

Ameritrade has retained MacKenzie Partners, Inc., a professional proxy solicitation firm, to assist it in the solicitation of proxies for the special meeting. Ameritrade will pay MacKenzie Partners a fee of approximately \$12,500 for its services, plus reimbursement for reasonable out-of-pocket expenses.

Arrangements also will be made with brokerage firms and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of stock held of record by such persons, and Ameritrade will reimburse such custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses in connection therewith.

**Recommendation of the Board of Directors**

The Ameritrade board of directors has unanimously approved the issuance of Ameritrade common stock to TD, and/or one or more of its affiliates, in accordance with the terms of the share purchase agreement, and the amendment and restatement of our certificate of incorporation. The compensation committee of the board of directors has unanimously approved the amended and restated stock plans. Based on Ameritrade's reasons for the acquisition of TD Waterhouse described in this proxy statement, the Ameritrade board of directors believes that the issuance of Ameritrade common stock and the transactions contemplated by the share purchase agreement are fair to, and in the best interests of, Ameritrade's stockholders and recommends that you vote **FOR** approval of the issuance of Ameritrade common stock to TD, and/or one or more of TD's affiliates, in accordance with the terms of the share purchase agreement. The Ameritrade board of directors also recommends that you vote **FOR** approval of the amendment and restatement of our certificate of incorporation, or any of the related sub-proposals, **FOR** approval of the amendment and restatement of the 1996 Long-Term Incentive Plan and the 1996 Directors Incentive Plan and **FOR** approval of the proposal to adjourn the special meeting if necessary to permit further solicitation of proxies on all matters if there are not sufficient votes at the time of the special meeting to approve the proposals relating to the issuance of Ameritrade common stock to TD, and/or one or more of TD's affiliates, in accordance with the terms of the share purchase agreement, the amendment and restatement of our certificate of incorporation, or any of the related sub-proposals.

See "The Transaction - Ameritrade's Reasons for the Transaction" beginning on page 48.

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**THE TRANSACTION**

**Background of the Transaction**

We regularly assess the competitive position of our products and services, technology and information systems, and of the online brokerage industry. Our industry has experienced significant consolidation in recent years and we believe that to remain competitive and enhance stockholder value it will be necessary for us to increase our scale and client base. To achieve these objectives, we have completed seven acquisitions since September 2001, including our combination with Datek Online Holdings Corp., which we completed in September 2002. We continuously explore and evaluate strategic opportunities and business scenarios as a part of our ongoing evaluation of changes in the marketplace, seeking opportunities to strengthen our business. As part of this process, our board of directors and management periodically consider and evaluate potential acquisition and consolidation opportunities that would further our strategic objectives and provide us with the opportunity to supplement our core business with complementary businesses and product and service offerings.

Beginning in April 2003, we engaged in preliminary discussions with TD to explore a possible strategic combination of Ameritrade and TD Waterhouse. After entering into a confidentiality agreement on May 7, 2003, representatives of each company conducted mutual preliminary due diligence investigations, exchanged term sheets and held meetings to discuss various aspects of a potential transaction. However, these preliminary discussions were concluded in December 2003, without agreement on the economic and other key parameters of a potential transaction.

Beginning in May 2004, J. Joe Ricketts, Chairman and Founder of Ameritrade, and W. Edmund Clark, President and Chief Executive Officer of TD, met on several occasions and had multiple telephone conversations to discuss their perspectives on the online brokerage market, the respective businesses of Ameritrade and TD Waterhouse and the potential for reinitiating discussions regarding a possible strategic combination of the Ameritrade and TD Waterhouse businesses.

From May 2004 to the end of September 2004, J. Joe Ricketts, together with Scot Galliher, a financial advisor engaged by Mr. Ricketts, met on several occasions with Mr. Clark and representatives of Goldman, Sachs & Co., TD's financial advisor, to discuss basic principles of a transaction in which Ameritrade would acquire TD Waterhouse. During this period, Mr. Ricketts periodically advised individual members of the Ameritrade board of directors regarding his communications with TD.

In October 2004, senior members of Ameritrade management commenced discussions with senior members of TD management regarding a general overview of their respective businesses and potential synergies that might be derived from a potential combination. Following these meetings, on November 7, 2004, we entered into a confidentiality agreement with TD to facilitate further discussions and the related exchange and use of confidential information. On that same date, senior members of our management held a meeting with senior members of TD management, as well as Mr. Galliher and representatives of Goldman, Sachs & Co. At this meeting, the parties discussed economic and valuation concepts and issues relating to a potential business combination, including potential synergy opportunities and integration issues. These discussions continued to be general in nature, but the parties agreed to spend the next several weeks focusing on developing a financial model for valuing the Ameritrade and TD Waterhouse businesses.

From November 2004 through December 2004, senior members of Ameritrade management and TD management continued to exchange preliminary financial information and to discuss potential synergies. In addition, at board meetings on November 18, 2004 and December 10, 2005, J. Joe Ricketts provided the Ameritrade board of directors with updates on the preliminary discussions with TD.

On January 19, 2005, Joseph H. Moglia, Chief Executive Officer of Ameritrade, met with Mitchell H. Caplan, Chief Executive Officer of E\*TRADE Financial Corporation, at an industry conference and discussed consolidation in the online brokerage industry and each of their respective businesses.

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From December 2004 through January 2005, J. Joe Ricketts and Mr. Galliher continued discussions with Mr. Clark and representatives of Goldman, Sachs & Co. regarding terms and conditions of a potential transaction involving Ameritrade and TD. These discussions resulted in a draft non-binding term sheet for a potential strategic transaction involving Ameritrade and TD that TD delivered to Mr. Ricketts and his advisors on January 27, 2005. Mr. Ricketts subsequently provided that term sheet to the Ameritrade board of directors.

On February 2, 2005, the Ameritrade board of directors held a special meeting to discuss the status of the preliminary discussions with TD, including the draft term sheet which J. Joe Ricketts had provided to the board of directors. Also at the meeting, senior members of Ameritrade management delivered a presentation to the board of directors that included information relating to the draft term sheet, the online brokerage industry, the Ameritrade business, the TD Waterhouse business and the potential merits and risks of entering into a potential transaction with TD. Mr. Clark, a representative of Goldman, Sachs & Co. and Mr. Galliher joined the meeting to answer questions from members of the Ameritrade board of directors.

On February 9, 2005, the Ameritrade board of directors held a special meeting to further discuss structural elements of a potential transaction outlined in the draft term sheet, including strategic benefits of the combination, valuation of the respective entities and post-transaction board composition and governance. At this meeting, the board of directors decided to form an independent special committee. The board of directors appointed Mark L. Mitchell and Michael Fleisher, both of whom the board of directors determined to be independent directors with respect to the potential transaction, to serve as members of the special committee. The board of directors authorized the special committee to review, evaluate, investigate and negotiate the terms of a possible transaction with TD, and any alternative transaction, and to determine whether the transaction with TD, or an alternative transaction, is fair to, and in the best interests of, Ameritrade and its stockholders.

The Ameritrade special committee held meetings on February 10, 2005, February 13, 2005 and February 15, 2005 to discuss the selection of a financial adviser and legal counsel to assist it and the full board of directors in performing their obligations with respect to evaluating the potential transaction with TD, or any alternative transaction. The special committee decided to engage Citigroup Global Markets Inc. to assist Ameritrade and the special committee in their evaluation of the potential transaction with TD and provide a fairness opinion, if requested, and Wilson Sonsini Goodrich & Rosati, Professional Corporation, or WSGR, to provide legal representation to Ameritrade under the direction of its board of directors and the special committee.

Following the Ameritrade 2005 annual meeting of stockholders on February 16, 2005, the Ameritrade board of directors held a regularly scheduled meeting at which it appointed Dan W. Cook, III, a newly elected director who the board of directors determined to be independent with respect to the potential transaction, to the special committee to serve with Messrs. Mitchell and Fleisher.

On February 16, 2005 and February 20, 2005, the Ameritrade board of directors and the special committee held meetings to discuss the draft term sheet of January 27, 2005, as well as various issues relating to the proposed structure and the process for considering the potential transaction with TD. At these meetings, representatives of WSGR advised the board of directors and the special committee on their fiduciary obligations, as well as future processes in connection with the special committee and the board of directors consideration of the potential transaction and various legal and regulatory issues that might arise in connection with the potential transaction. WSGR also advised the special committee that it had contacted Potter Anderson & Corroon LLP to assist the special committee as special Delaware counsel.

On February 23, 2005, Ellen L.S. Koplou, Executive Vice President and General Counsel of Ameritrade, and representatives of Citigroup and WSGR held a telephonic meeting with Mr. Galliher and representatives of Mayer, Brown, Rowe & Maw LLP, legal counsel to J. Joe Ricketts and his affiliates, to discuss the major issues contained in the draft term sheet, including structure of the transaction, relative

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valuations of Ameritrade and TD Waterhouse, and governance and management of Ameritrade following the completion of the potential transaction, including board representation.

The Ameritrade special committee next met on February 28, 2005, to discuss the governance provisions of the draft term sheet of January 27, 2005, and the effect those terms could have on Ameritrade's ability to enter into future strategic transactions. At this meeting, the special committee focused its analysis on the impact of the transaction outlined in the draft term sheet on Ameritrade's standalone strategy and on other strategic alternatives available to Ameritrade, as well as the views of the committee members on consolidation in the industry and a potential for a future change of control of Ameritrade following the transaction. The special committee also reviewed the proposed rights that would be retained by certain stockholders of Ameritrade and the impact on other stockholders. The special committee discussed potential changes to the governance and economic terms set forth in the draft term sheet in light of these issues. Representatives from Citigroup also reviewed with the special committee their recent discussions with Messrs. Ricketts and Galliher regarding various valuation methodologies and other analyses with respect to the potential transaction. The special committee directed its legal and financial advisors to discuss alternatives to various provisions of the draft term sheet with TD's advisors.

On March 2, 2005, representatives of Citigroup, WSGR, Goldman, Sachs & Co. and Simpson Thacher & Bartlett LLP, legal counsel for TD, held a telephonic meeting at which they discussed principal issues, including structure of the transaction, relative valuation of Ameritrade and TD Waterhouse and governance and management of Ameritrade following the completion of the potential transaction, including board representation. Following this meeting, on March 4, 2005, TD sent to Ameritrade a draft purchase agreement containing the proposed terms and conditions of an acquisition of TD Waterhouse by Ameritrade.

On March 8, 2005, the Ameritrade special committee held a meeting at which a representative from Citigroup discussed certain preliminary financial analyses, including the financial effect of synergy opportunities identified by the management of Ameritrade in connection with the potential transaction. Senior members of management presented their strategic views of the potential transaction, as well as their views on other strategic alternatives, including the company's prospects as a standalone business. A representative of WSGR also reviewed with the special committee various business and legal aspects of the potential transaction, including an update on recent discussions with Simpson Thacher with respect to the principal terms being discussed by the parties and their advisors. In addition, a representative of Potter Anderson discussed legal considerations relating to the provisions of the draft term sheet on governance and voting structure. The special committee made a preliminary determination that the financial aspects of the transaction, including the possible synergies, had the potential to be favorable to Ameritrade and its stockholders from a financial standpoint and that its advisors should address refinement of the governance structure. The special committee gave instructions to its advisors with regard to continued negotiations and conveying Ameritrade's requirements for due diligence to TD.

On March 11, 2005, representatives of WSGR and Simpson Thacher held a telephonic meeting to discuss governance, voting and other terms related to the potential transaction. WSGR proposed changes to the draft term sheet to address the Ameritrade special committee's concerns regarding governance and management rights issues and the potential for a future change of control of Ameritrade following the transaction. On March 15, 2005, TD sent to Ameritrade additional comments to the draft term sheet based on the prior discussions. WSGR reported the results of these discussions to the special committee at a meeting held on March 20, 2005, and the special committee directed its advisors to continue negotiations with TD's advisors, under the direction of the special committee.

During March 2005, J. Joe Ricketts and Mr. Mitchell periodically communicated the status of discussions with TD and consideration of other strategic alternatives to members of the Ameritrade board of directors on an individual basis. On March 22, 2005, the Ameritrade board of directors held a meeting at which Mr. Mitchell, on behalf of the special committee, reported on the status of discussions with TD regarding the potential transaction, including the special committee's preliminary analysis that the transaction had the potential to be favorable from a financial standpoint to Ameritrade and its stockholders, and that the special committee continued to refine the governance structure being discussed by the parties and their



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advisors. Mr. Mitchell described on behalf of the special committee the proposed changes to the draft term sheet. Mr. Ricketts informed the board of directors that based on his concerns about valuation in light of his views on recent developments in the online brokerage industry, as well as the changes to the term sheet proposed by the special committee, he was not willing to support the transaction as proposed. He advised the board of directors that he had informed TD of his concerns.

On March 25, 2005 and April 3, 2005, the Ameritrade special committee held meetings to discuss with its advisors J. Joe Ricketts's concerns with respect to the revised term sheet and the valuation of the proposed transaction. Mr. Ricketts attended the meeting held on April 3, 2005 to discuss his concerns with the special committee and express his preliminary interest in increasing his ownership in Ameritrade as an alternative to the proposed transaction with TD. At the meeting, a representative of WSGR discussed various business and legal considerations relating to a transaction in which Mr. Ricketts would increase his ownership in Ameritrade, as well as the special committee's role with respect to its evaluation of such an increase. The special committee determined that the company's senior management should prepare and present to the full board of directors management's plans and assessment of the various strategic alternatives available to Ameritrade.

On April 6, 2005, the Ameritrade board of directors held a special meeting to discuss the potential transaction with TD, J. Joe Ricketts's views on the TD proposal and his ideas regarding alternative transactions in which he would increase his ownership in Ameritrade. At this meeting, senior members of Ameritrade management presented to the board of directors on current market conditions in the brokerage industry and the company's strategic position. As part of this presentation, they reviewed with the board of directors the current strategy and standalone prospects as well as the potential synergies and financial projections under various scenarios, and the likelihood that those projections could be achieved. Mr. Galliher also made a presentation on behalf of Mr. Ricketts summarizing Mr. Ricketts's views regarding the proposed transaction with TD and Mr. Ricketts's ideas about increasing his ownership in Ameritrade as an alternative to the potential transaction with TD. At the meeting, a representative of Citigroup discussed with the board of directors financial aspects of the potential transaction with TD, as well as other potential alternatives, and a representative of WSGR outlined the fiduciary duties of the board of directors with respect to considering the various strategic alternatives. The board of directors discussed the current competitive landscape, the company's business and strategy, the possible long-term and short-term effects of the various strategic possibilities and the associated potential risks and rewards posed by those alternatives.

Over the next several weeks, the Ameritrade special committee worked closely with its advisors with respect to the structure of the potential transaction with TD and the preparation of a revised term sheet for the transaction. On April 20, 2005, the Ameritrade board of directors held a special meeting to discuss the proposed transaction with TD. A representative of WSGR presented to the board of directors various revisions to the draft TD term sheet reflecting changes that the special committee viewed as appropriate in order to address the governance and other issues it had previously identified, including ownership and board composition issues, as well as the rights that significant stockholders might have in the combined company. J. Joe Ricketts and Mr. Galliher discussed with the board of directors Mr. Ricketts's concerns with the special committee's proposed revisions and his desire to present alternative strategies to increase stockholder value for consideration by the board of directors. The board of directors discussed the revised term sheet and various strategic alternatives available to Ameritrade, as well as Mr. Ricketts's ideas regarding strategic alternatives. A representative of WSGR also reviewed the fiduciary obligations of the board of directors and other legal considerations with respect to an evaluation of strategic alternatives. In light of the increased pace of negotiations, to facilitate the board being fully informed on a current basis, and in light of the Ameritrade board's view that at least a majority of its members were independent with respect to the negotiation of the potential transaction, the board of directors determined that the full board of directors should undertake direct supervision of the potential transaction with TD, as well as other strategic alternatives available to Ameritrade, and that the work of the special committee would be suspended.

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In late April 2005, WSGR discussed with Simpson Thacher the concerns of the special committee and the board of directors with respect to the draft term sheet. On April 26, 2005, WSGR delivered to Simpson Thacher a proposed revised draft term sheet, and on May 1, 2005, TD presented Ameritrade with another revised draft term sheet for a potential transaction involving the two companies. The May 1, 2005 term sheet contained proposed revisions with respect to, among other matters, ownership, board composition and stockholder rights.

On May 5, 2005, Mr. Caplan sent a letter to Ameritrade's board of directors and chief executive officer regarding E\*TRADE's desire to explore a business combination with Ameritrade and proposing economic terms for such a transaction.

On May 11, 2005, the Ameritrade board of directors held a meeting to discuss the letter from E\*TRADE dated May 5, 2005, the potential transaction with TD, and the views of J. Joe Ricketts, as well as other possible strategic alternatives. At the meeting, Mr. Moglia made a presentation on management's views and analysis of the various proposals. Mr. Ricketts also made a presentation on his views regarding the E\*TRADE and TD proposals, as well as his ideas with respect to possible alternative transactions, including an increase of his ownership. A representative of WSGR reviewed with the board of directors the various terms of the TD and E\*TRADE proposals and discussed the fiduciary duties of the board of directors with respect to evaluating the proposals and considering strategic alternatives. Also at this meeting, representatives of Citigroup discussed with the board of directors a comparison of the January 27, 2005 and May 1, 2005 proposals and certain preliminary valuation analyses of TD Waterhouse. The board of directors instructed its advisors to continue discussions with TD to determine whether or not the parties could reach agreement on the terms and conditions of a strategic transaction. The board of directors also instructed management to issue a press release, which it did on May 12, 2005, stating that the board of directors supported Ameritrade's growth strategy, the company would continue to explore strategic opportunities, the company was not for sale and the board of directors was confident in the Ameritrade management team and its strategy.

On May 12, 2005, Mr. Caplan sent a second letter to Ameritrade's board of directors and chief executive officer advising them of E\*TRADE's continued desire to pursue a business combination on the terms previously outlined in his letter dated May 5, 2005 and proposing certain changes to the economic terms outlined in that letter. On that same date, E\*TRADE publicly announced its proposal for a strategic combination with Ameritrade, as outlined in its letter to Ameritrade dated May 5, 2005.

On May 15, 2005, the Ameritrade board of directors held a meeting to discuss the revised offer from E\*TRADE dated May 12, 2005. The board of directors also discussed with its advisors certain of the proposed terms of the transaction with TD. The board of directors instructed its advisors to continue discussions with TD and present to TD various counterproposals with respect to terms of the potential transaction, and from May 15, 2005 through May 17, 2005, Ameritrade's advisors held telephonic meetings with TD's advisors to discuss the terms of the potential transaction. The Ameritrade board of directors next met on May 17, 2005, to discuss the status of negotiations between Ameritrade and TD, at which representatives of WSGR and Citigroup updated the board of directors regarding their discussions over the prior two days and Citigroup discussed certain preliminary financial analyses regarding the potential transaction with TD. The board of directors decided to continue to pursue negotiations with TD. The board of directors also discussed the recent E\*TRADE proposal and decided that in order to be more fully informed regarding the proposal, Ameritrade should enter into a confidentiality and standstill agreement with E\*TRADE to facilitate further discussions and to provide certain limitations on the ability of each party to make unsolicited offers to the other party's stockholders during the period in which they were in discussions with each other.

On May 18, 2005, Mr. Clark sent a letter to the Ameritrade special committee, which was accompanied by a non-binding term sheet setting out the revised principal provisions of a potential transaction with TD, including modified proposals with respect to ownership, board composition and governance. On May 20, 2005, based on instructions from the Ameritrade board of directors, representatives of Citigroup and WSGR held a telephonic meeting with representatives of Goldman,

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Sachs & Co. and Simpson Thacher to discuss Ameritrade's response to TD's revised term sheet of May 18, 2005.

On May 21, 2005, TD sent Ameritrade a revised term sheet regarding the potential transaction. TD revised the provisions of the May 18, 2005 term sheet to reflect the discussions of the parties with respect to ownership and governance, and TD included a provision for the payment of a special cash dividend to Ameritrade stockholders of \$1.00 per share.

At meetings on May 22 and May 23, 2005, the Ameritrade board of directors discussed the status of negotiations between Ameritrade and TD with respect to the terms of a potential transaction. The board of directors also discussed the status of negotiations between Ameritrade and E\*TRADE with respect to a confidentiality and standstill agreement. The board of directors instructed its advisors to continue discussions with TD and E\*TRADE and authorized its advisors and management to complete their due diligence review of TD Waterhouse. On May 24, 2005, Ameritrade and E\*TRADE entered into a confidentiality and standstill agreement. E\*TRADE subsequently made a presentation to senior members of Ameritrade management to explain the analysis that led to E\*TRADE's proposal on May 5, 2005.

From late May 2005 to mid-June 2005, representatives of each of Ameritrade and TD, together with their respective financial and legal advisors, conducted due diligence investigations, including meetings with their counterpart and the reciprocal exchange of due diligence materials. The due diligence investigations encompassed matters relating to finance, accounting, internal audit, legal and regulatory compliance, technology and information systems, properties, human resources and each company's businesses, including product and service offerings.

On May 27, 2005 and May 30, 2005, TD sent to Ameritrade revised draft agreements containing terms and conditions of a potential transaction involving the two companies. From May 31, 2005 to June 22, 2005, representatives of Ameritrade and WSGR conducted negotiations with representatives of TD and Simpson Thacher concerning the definitive transaction documents relating to the potential transaction with TD. On May 31, 2005, Ameritrade and TD issued a joint press release stating that they were in discussions regarding a potential transaction involving the TD Waterhouse business.

On June 2, 2005, Mr. Caplan sent a letter to Ameritrade confirming E\*TRADE's continued desire to pursue a business combination on the terms previously outlined in his letter dated May 5, 2005, and proposing certain changes to the economic terms outlined in that letter.

On June 3, 2005, the Ameritrade board of directors held a meeting to discuss the status of negotiations with TD and recent conversations with E\*TRADE that were centered on developing a better understanding of E\*TRADE's proposal. Senior members of management presented comparative analyses of the proposals from TD and E\*TRADE, as well as an update on their discussions with both of those parties. The board of directors discussed the two proposals and the need to conduct due diligence on E\*TRADE's banking business. In June 2005, Ameritrade engaged Promontory Financial Group, a regulatory and consulting services firm, to assist its management team and advisors in conducting the due diligence investigation of E\*TRADE's commercial bank. From June 16, 2005 to June 21, 2005, representatives of Ameritrade, together with Promontory Financial Group, conducted financial due diligence investigations of E\*TRADE, including E\*TRADE's banking business.

On June 10, 2005, E\*TRADE sent to Ameritrade a draft merger agreement setting forth proposed terms and conditions of a business combination of the two companies. On June 11, 2005, Ameritrade and E\*TRADE entered into an expanded confidentiality agreement to allow full due diligence investigations to proceed on both companies, and on June 16, 2005, J. Joe Ricketts, J. Peter Ricketts, and Thomas S. Ricketts met with Mr. Caplan to discuss E\*TRADE's recent proposal.

On June 17, 2005, the Ameritrade board of directors held a special meeting to discuss the status of discussions with and due diligence investigations of E\*TRADE and TD. At the meeting, representatives of Citigroup provided the board of directors with an overview of E\*TRADE and its businesses and reviewed with the board of directors comparative analyses of the proposals from TD and E\*TRADE and discussed various strategic and financial considerations relating to each of the proposals. Promontory presented its

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analysis of the banking business of E\*TRADE. Senior members of Ameritrade management also presented at this meeting on the current market conditions in the industry and the company's strategic position and their views on the proposals, which included a discussion regarding expected financial and strategic synergies. In addition, representatives of WSGR discussed with the board of directors various business and legal aspects of the proposals, including the fiduciary duties of the board of directors in connection with its consideration of the proposals and legal and regulatory issues associated with the proposals. In addition, WSGR reviewed the terms of the draft transaction documents relating to the potential TD transaction, including, among other things, the conditions to closing, limitations on solicitation of alternative transactions, termination rights, and restrictions on share ownership and governance provisions. Following the review of the terms of the potential TD transaction, the board of directors discussed E\*TRADE's proposal and compared the terms and conditions of the proposal to those of the potential TD transaction.

On the morning of June 18, 2005, the Ameritrade board of directors reconvened its special meeting to continue its discussions with respect to the proposals from TD and E\*TRADE. J. Joe Ricketts reported to the board of directors regarding his recent conversation with Mr. Caplan on June 16, 2005. The board of directors determined that it was in the best interests of Ameritrade and its stockholders to continue discussions with each of TD and E\*TRADE regarding a potential strategic transaction, and the board of directors directed its advisors and Ameritrade management to pursue that strategy in accordance with guidelines set by the board of directors. The board of directors also instructed Mr. Mitchell and WSGR to contact Mr. Clark and inform him of the board of directors' decision.

On June 18, 2005, immediately following the meeting of the Ameritrade board of directors, Mr. Mitchell and a representative from WSGR telephoned Mr. Clark and discussed with him the Ameritrade board of directors' desire to evaluate E\*TRADE's proposal and complete its due diligence investigation of E\*TRADE.

Later that morning, senior members of Ameritrade management and Ameritrade's advisors held a telephonic meeting with senior members of E\*TRADE management and E\*TRADE's advisors to inform them of the Ameritrade board of directors' decision and to discuss a process and timetable for continued discussions and due diligence investigation.

Later that afternoon, Mr. Mitchell and a representative from WSGR held a telephonic meeting with Mr. Clark and a representative from Simpson Thacher at which Mr. Clark indicated TD's unwillingness to delay the transaction process as Ameritrade had proposed.

Following the telephonic meeting that afternoon, Mr. Clark sent a letter addressed to the Ameritrade board of directors, which was dated June 18, 2005, acknowledging Ameritrade's intention to evaluate E\*TRADE's proposal. In his letter, Mr. Clark informed the Ameritrade board of directors that TD was, subject to certain conditions, willing to delay the transaction process with Ameritrade for two business days.

From June 19, 2005 to June 21, 2005, representatives of WSGR conducted negotiations with E\*TRADE's legal counsel concerning the proposed terms of definitive transaction documents for a combination with E\*TRADE.

On June 19, 2005, Mr. Mitchell and representatives from WSGR held various telephonic meetings with Mr. Clark and representatives from Simpson Thacher to discuss Mr. Clark's letter and address outstanding issues with respect to the terms of Ameritrade's proposed transaction with TD.

On June 19, 2005, the Ameritrade board of directors held a special meeting to discuss the status of discussions with TD and E\*TRADE. Representatives from WSGR provided the board of directors with an update with respect to discussions with TD and E\*TRADE. The board of directors decided to continue to pursue discussions with both TD and E\*TRADE.

From June 20, 2005 to June 21, 2005, representatives of Ameritrade and E\*TRADE, together with their respective financial and legal advisors, conducted due diligence investigations, including meetings with their counterparts, and the reciprocal exchange of due diligence materials. The due diligence encompassed matters relating to finance, accounting, internal audit, legal and regulatory compliance, technology and

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information systems, properties, human resources and each company's businesses, including product and service offerings.

On June 20, 2005, Mr. Mitchell and representatives from WSGR held a telephonic meeting with Mr. Clark and representatives from Simpson Thacher to discuss various outstanding issues with respect to Ameritrade's proposed transaction with TD, including structure, valuation and premium, and governance and management. Following this meeting, the Ameritrade board of directors held a special meeting to discuss the status of discussions with and due diligence investigations of TD and E\*TRADE. Representatives from Citigroup and WSGR provided the board of directors with an update with respect to discussions with TD and E\*TRADE. The board of directors determined to continue to pursue discussions with both TD and E\*TRADE.

On June 21, 2005, J. Joe Ricketts shared with the Ameritrade board of directors further analysis of the TD and E\*TRADE proposals performed by Mr. Galliher. Later that day, Mr. Caplan sent a letter addressed to the Ameritrade board of directors, in which he confirmed E\*TRADE's continued desire to pursue a strategic business combination with Ameritrade and made a revised proposal with respect to specific valuation and ownership terms.

Also on June 21, 2005, Mr. Clark sent a letter addressed to the Ameritrade board of directors which contained a revised and final proposal with respect to valuation and ownership terms in connection with a combination of Ameritrade and TD Waterhouse, and included an increase in the proposed special cash dividend to Ameritrade stockholders to \$6.00 per share.

Also on June 21, 2005, Mr. Caplan called J. Joe Ricketts to discuss E\*TRADE's revised proposal with respect to a business combination with Ameritrade. In addition, Mr. Mitchell and representatives from Citigroup held a telephonic meeting with Mr. Clark and representatives from Goldman, Sachs & Co. to discuss TD's revised proposal and a separate telephonic meeting with representatives of E\*TRADE to discuss its proposal.

On the evening of June 21, 2005, the Ameritrade board of directors held a special meeting to discuss the status of discussions with TD and E\*TRADE and the revised proposals received from each of those parties earlier in the day. All of the members of the board of directors were present at the meeting, along with senior members of management and advisors. Promontory presented its report on its due diligence investigation of E\*TRADE's bank. Senior members of management also reported to the board of directors on Ameritrade's due diligence investigation of E\*TRADE. Representatives from Citigroup and WSGR provided the board of directors with an update with respect to discussions with TD and E\*TRADE and reviewed the revised proposals from those parties. The board of directors discussed the revised proposals from TD and E\*TRADE, including their financial and other terms, the risks and opportunities identified in connection with the proposals and the strategic implications of the proposals. Following these discussions, the board of directors determined that the acquisition of TD Waterhouse, when considered in light of its financial and other terms as well as the risks attendant in each of the proposals, represented the best strategic transaction for Ameritrade and its stockholders. The board of directors directed management and its advisors to work with TD and its advisors to complete negotiations and finalize the transaction documents. Following the meeting, J. Joe Ricketts telephoned Mr. Caplan of E\*TRADE to inform him of the board of directors' decision to accept TD's proposal. Mr. Ricketts also telephoned Mr. Clark to advise him that the Ameritrade board had unanimously approved the TD proposal and that the Ricketts holders supported the transaction.

On June 22, 2005, the Ameritrade board of directors held a special meeting to discuss the terms and conditions of the share purchase agreement and related agreements, including the stockholders agreement, the voting agreement and the registration rights agreement and the Canadian purchase agreement that had been negotiated by Ameritrade and TD. At the meeting, representatives of Citigroup reviewed its material financial analyses prepared in connection with the preparation of its opinion. Citigroup then delivered its oral opinion, which was subsequently confirmed in writing, that, as of June 22, 2005, and based on and subject to the matters set forth in its opinion, the consideration to be paid by Ameritrade in the proposed transaction was fair, from a financial point of view, to Ameritrade. After deliberating on the foregoing, the board of directors determined that the proposed transaction with TD was fair to and in the best interests of

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the company and its stockholders, approved the share purchase agreement and related agreements, directed that the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of the certificate of incorporation be submitted for consideration by Ameritrade stockholders at a special meeting of Ameritrade stockholders, and resolved to recommend that Ameritrade stockholders vote in favor of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of the certificate of incorporation.

Following the meeting of the Ameritrade board of directors on June 22, 2005, Ameritrade and TD entered into the share purchase agreement and related agreements, each dated as of June 22, 2005, and the parties issued a joint press release on June 22, 2005, announcing that the parties had entered into a definitive agreement for Ameritrade to acquire TD Waterhouse.

**Ameritrade's Reasons for the Transaction**

The Ameritrade board of directors has determined that the share purchase agreement, the amendment and restatement of our certificate of incorporation, the other agreements entered into in connection with the share purchase agreement and the transactions contemplated by all of these agreements are fair to, and in the best interests of, Ameritrade and its stockholders. In approving these agreements and the transactions contemplated by them, the Ameritrade board of directors consulted with its financial advisors with respect to the financial aspects and fairness of the acquisition of TD Waterhouse to Ameritrade from a financial point of view and with its legal counsel as to its fiduciary duties and the terms of the share purchase agreement and the other agreements entered into in connection with the share purchase agreement, including the stockholders agreement and the amendment and restatement of our certificate of incorporation. In reaching its determination to approve these agreements and the transactions contemplated by these agreements, the Ameritrade board of directors, with advice from the special committee of the Ameritrade board of directors, Ameritrade's executive officers and Ameritrade's financial and legal advisors, considered a number of factors, including the following material factors:

The board of directors' knowledge of Ameritrade's business, operations, financial condition and prospects and of TD Waterhouse's business, operations, financial conditions and prospects, taking into account the results of Ameritrade's due diligence review of TD Waterhouse, discussions with management of TD Waterhouse and TD and the presentations and evaluation of Ameritrade's financial advisor.

The board of directors' knowledge of the current and prospective environment in which Ameritrade and TD Waterhouse operate, including political and economic conditions, the competitive environment, the market for potential acquisitions and the likely effect of these factors on Ameritrade's and TD Waterhouse's potential growth, development, productivity, profitability and strategic options.

The board of directors' assessment that the acquisition of TD Waterhouse is reasonably likely to enhance Ameritrade's strategic goal of increasing the scale of Ameritrade's business and expanding its operations into the long-term investor market, which is expected to reduce volatility in Ameritrade's business, increase Ameritrade's exposure to higher-growth brokerage markets and fill out the suite of services Ameritrade offers to its clients so as to provide a more attractive comprehensive brokerage solution.

The work of the special committee of the board of directors and its views regarding the terms and financial aspects of the transaction provided to the board of directors;

The significant synergy opportunities identified by Ameritrade management in connection with the acquisition of TD Waterhouse, including expected cost savings and increased revenue opportunities, and the timeline for achievement of these synergies projected by Ameritrade management following its due diligence investigation of TD Waterhouse.

The experience of Ameritrade's management in implementing previous acquisitions and substantially achieving or surpassing projected integration and synergy targets and timelines, and the

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expectation that the combined company following the acquisition of TD Waterhouse would continue to be managed by Ameritrade's experienced senior executives.

The financial terms of the acquisition of TD Waterhouse, including the immediate liquidity to be provided to Ameritrade stockholders through the special dividend and the tender offer to be made by TD (and J. Joe Ricketts at his election), together with the realization of the synergy opportunities projected in connection with the acquisition of TD Waterhouse and the ability of Ameritrade's stockholders to continue to participate in any future growth of Ameritrade.

The board of directors' understanding of the other strategic alternatives likely to be available to Ameritrade, including the terms of an alternative transaction proposed by E\*TRADE following discussions between Ameritrade and E\*TRADE.

The stockholder and regulatory approvals required in connection with the acquisition of TD Waterhouse and the other terms of the share purchase agreement, and the likelihood that, once the share purchase agreement had been entered into, the acquisition of TD Waterhouse would be completed if the issuance of Ameritrade common stock in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation were approved by our stockholders and the acquisition of TD Waterhouse were approved by applicable regulatory agencies.

The terms of the stockholders agreement, including provisions providing for restrictions on the acquisition and transfer of Ameritrade common stock by TD and the Ricketts holders, and the requirements to be followed by TD in seeking to effect certain going private transactions with respect to Ameritrade.

The financial analysis presented by Citigroup, as financial advisor to Ameritrade, and the opinion delivered by Citigroup to the effect that, as of June 22, 2005, and based upon and subject to the assumptions made, matters considered and limitations set forth in the opinion, the consideration to be paid by Ameritrade pursuant to the share purchase agreement was fair to Ameritrade from a financial point of view. See *The Transaction Opinion of Ameritrade's Financial Advisor* beginning on page 50.

In the course of its deliberations, the Ameritrade board of directors also considered a variety of risks and other potentially negative factors concerning the acquisition of TD Waterhouse, including the following:

The fact that TD would hold approximately 32% of the outstanding TD Ameritrade common stock upon consummation of the acquisition of TD Waterhouse and would be permitted to acquire, subject to certain qualifications, up to 39.9% of the outstanding TD Ameritrade common stock during the three years from the closing, up to 45% 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 common stock following the termination of the stockholders agreement. In this regard, the Ameritrade board of directors considered the impact this could have on the willingness of a third party to propose a strategic transaction with Ameritrade in the future.

The terms of the share purchase agreement restricting Ameritrade's solicitation of third party acquisition proposals and providing for Ameritrade's payment of a termination fee to TD in specified events and the terms of the voting agreement entered into by certain Ameritrade stockholders, all of which the Ameritrade board of directors understood, while required by TD as a condition to TD's willingness to enter into the share purchase agreement, could affect the willingness of a third party to propose a competing business transaction with Ameritrade.

The terms of the stockholders agreement imposing restrictions on the board composition and corporate governance of Ameritrade following the acquisition of TD Waterhouse and providing for certain rights of TD and the Ricketts holders to purchase Ameritrade securities to maintain their ownership percentage.



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The possibility that the synergies and other financial and strategic benefits expected to be achieved in the acquisition of TD Waterhouse would not be obtained on a timely basis or at all.

The risks and costs that could be borne by Ameritrade if the acquisition of TD Waterhouse is not completed, including the diversion of management and employee attention during the period after the signing of the share purchase agreement, potential employee attrition and the potential effect on Ameritrade's business and client relations. In that regard, under the share purchase agreement, Ameritrade must conduct its business in the ordinary course and is subject to a variety of other restrictions on the conduct of its business prior to completion of the acquisition of TD Waterhouse or termination of the share purchase agreement, which may delay or prevent Ameritrade from undertaking business opportunities that may arise.

The foregoing discussion of the information considered by Ameritrade's board of directors is not exhaustive, but includes the material factors that Ameritrade's board of directors considered in approving and recommending the issuance of Ameritrade common stock in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation. In view of the wide variety of factors considered by Ameritrade's board of directors in connection with its evaluation of the acquisition of TD Waterhouse and the complexity of these factors, the Ameritrade board of directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign any specific or relative weights to the specific factors that it considered in reaching its decision. The board of directors discussed the factors described above, including asking questions of Ameritrade's senior management and legal and financial advisor, and unanimously determined that the acquisition of TD Waterhouse was in the best interests of Ameritrade and its stockholders. In considering the factors described above, individual directors may have assigned different weights to different factors. Ameritrade's board of directors relied on the experience and expertise of Ameritrade's financial advisor for quantitative analysis of the financial terms of the acquisition of TD Waterhouse. See below under "The Transaction - Opinion of Ameritrade's Financial Advisor" beginning on page 50.

The above explanation of the reasoning of Ameritrade's board of directors and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under "Cautionary Statement Concerning Forward-Looking Statements" beginning on page 34.

**For the reasons set forth above, Ameritrade's board of directors has approved the share purchase agreement, the other agreements entered into in connection with the share purchase agreement and the transactions contemplated by those agreements, has concluded that the transactions are advisable and in the best interests of Ameritrade and its stockholders and unanimously recommends that Ameritrade stockholders vote for the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals.**

**Opinion of Ameritrade's Financial Advisor**

Ameritrade and a special committee of the board retained Citigroup to act as financial advisor in connection with the acquisition of TD Waterhouse. Pursuant to Citigroup's engagement letter with Ameritrade and the special committee, Citigroup rendered to the Ameritrade board of directors and the special committee on June 22, 2005 an oral opinion, which was subsequently confirmed by delivery of a written opinion, to the effect that, as of the date of the opinion and based upon and subject to the considerations and limitations set forth in the opinion, Citigroup's work described below and other factors it deemed relevant, the consideration to be paid by Ameritrade in the acquisition of TD Waterhouse was fair, from a financial point of view, to Ameritrade.

The full text of Citigroup's opinion, which sets forth the assumptions made, general procedures followed, matters considered and limits on the review undertaken, is included as Appendix B to this proxy statement and is incorporated into this proxy statement by reference. The summary of Citigroup's opinion set forth below is qualified in its entirety by reference to the full text of the opinion. **Holders of Ameritrade common stock are urged to read Citigroup's opinion carefully and in its entirety.**

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**Citigroup's opinion was provided for the information of the Ameritrade board of directors and the special committee in their evaluation of the proposed acquisition of TD Waterhouse and was limited solely to the fairness of the consideration to be paid by Ameritrade in the acquisition of TD Waterhouse from a financial point of view as of the date of the opinion. Neither Citigroup's opinion nor its related analyses constituted a recommendation of the acquisition of TD Waterhouse to the Ameritrade board of directors or the special committee. Citigroup makes no recommendation to any stockholder regarding how such stockholder should vote or act on any matters relating to the acquisition of TD Waterhouse, including whether any stockholder should tender shares of Ameritrade common stock in the tender offer to be made by TD following consummation of the acquisition of TD Waterhouse and in which J. Joe Ricketts may participate as a co-bidder.**

In arriving at its opinion, Citigroup reviewed the share purchase agreement, the Canadian purchase agreement, the stockholders agreement and the voting agreement and held discussions with senior officers, directors and other representatives and advisors of Ameritrade and senior officers and other representatives of TD and TD Waterhouse concerning the business, operations and prospects of Ameritrade and TD Waterhouse. Citigroup examined publicly available business and financial information relating to Ameritrade and TD Waterhouse, as well as financial forecasts and other information and data relating to Ameritrade and TD Waterhouse which were provided to or otherwise reviewed by or discussed with Citigroup by the respective managements of Ameritrade, TD and TD Waterhouse, including information relating to the potential strategic implications and operational benefits anticipated by the managements of Ameritrade, TD and TD Waterhouse to result from the acquisition of TD Waterhouse, including adjustments to the forecasts and other information and data relating to TD Waterhouse discussed with Citigroup by the management of Ameritrade. Citigroup reviewed the financial terms of the acquisition of TD Waterhouse as set forth in the share purchase agreement in relation to, among other things:

current and historical market prices and trading volumes of Ameritrade common stock;

the historical and projected earnings and other operating data of Ameritrade and TD Waterhouse; and

the capitalization and financial condition of Ameritrade and TD Waterhouse.

Citigroup considered, based upon publicly available information and information provided by the management of Ameritrade, the financial terms of other transactions that Citigroup considered relevant in evaluating the acquisition of TD Waterhouse and analyzed financial, stock market and other publicly available information relating to the businesses of other companies whose operations Citigroup considered relevant in evaluating those of Ameritrade and TD Waterhouse. Citigroup also evaluated the pro forma financial effects of the acquisition of TD Waterhouse on Ameritrade. In addition to the foregoing, Citigroup conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as Citigroup deemed appropriate in arriving at its opinion.

In rendering its opinion, Citigroup assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with it and upon the assurances of the managements of Ameritrade, TD and TD Waterhouse that they were not aware of any relevant information that was omitted or that remained undisclosed to Citigroup. With respect to financial forecasts and other information and data relating to Ameritrade and TD Waterhouse provided to or otherwise reviewed by or discussed with it, and, in the case of potential pro forma effects of, and strategic implications and operational benefits resulting from, the acquisition of TD Waterhouse, Citigroup was advised by the respective managements of Ameritrade, TD and TD Waterhouse that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of Ameritrade, TD and TD Waterhouse as to the future financial performance of Ameritrade and TD Waterhouse and assumed, with the consent of the Ameritrade board of directors and the special committee, that the financial results (including the potential strategic implications and operational benefits anticipated to result from the acquisition of TD Waterhouse) reflected in such forecasts and other information and data will be realized in the amounts and at the

times projected. Citigroup assumed, with

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the consent of the Ameritrade board of directors and the special committee, that the acquisition of TD Waterhouse will be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the acquisition of TD Waterhouse, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Ameritrade or TD Waterhouse or the contemplated benefits of the acquisition of TD Waterhouse. Citigroup also assumed that the Canadian share purchase will be consummated in accordance with the terms of the Canadian purchase agreement.

Citigroup's opinion relates to the relative values of Ameritrade and TD Waterhouse after giving effect to the Canadian share purchase and the Reorganization. Citigroup did not express any opinion as to the price at which the Ameritrade common stock will trade at any time. Citigroup did not make and was not provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Ameritrade or TD Waterhouse, nor did Citigroup make any physical inspection of the properties or assets of Ameritrade or TD Waterhouse.

Citigroup was familiar with the discussions that the management of Ameritrade engaged in with E\*TRADE regarding a possible merger with E\*TRADE. Citigroup expressed no view as to, and its opinion did not address, the relative merits of the acquisition of TD Waterhouse as compared to any alternative business strategies or transactions that might exist for Ameritrade or the effect of any other transaction in which Ameritrade might engage, including any transaction with E\*TRADE. Citigroup's opinion relates solely to the fairness, from a financial point of view, as of June 22, 2005, of the consideration to be paid by Ameritrade in the acquisition of TD Waterhouse, and does not address any other matter, including the terms of the Canadian share purchase, the stockholders agreement or the tender offer to be made by TD following the consummation of the acquisition of TD Waterhouse and in which J. Joe Ricketts may participate as a co-bidder and Citigroup expressed no view as to the price per share of Ameritrade common stock to be paid pursuant to the tender offer or whether any Ameritrade stockholder should tender shares of Ameritrade common stock in the tender offer. Citigroup's opinion was necessarily based upon information available to it, and financial, stock market and other conditions and circumstances existing, as of the date of its opinion.

In connection with rendering its opinion, Citigroup made a presentation to the Ameritrade board of directors and the special committee on June 22, 2005 with respect to the material financial analyses performed by Citigroup in evaluating the fairness of the consideration to Ameritrade as of the date of Citigroup's opinion. The following is a summary of that presentation. The summary includes information presented in tabular format. In order to understand fully the financial analyses used by Citigroup, these tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. The following quantitative information, to the extent it is based on market data, is, except as otherwise indicated, based on market data as it existed at or prior to June 21, 2005, and is not necessarily indicative of current or future market conditions.

References to fiscal years refer to actual September fiscal years for Ameritrade and references to September fiscal years refer to twelve-month periods ended September 30 for each of TD Waterhouse, The Charles Schwab Corporation and E\*TRADE.

***Indicated Transaction Multiples***

Citigroup calculated various multiples resulting from the acquisition of TD Waterhouse. These calculations were based on financial analyses and forecasts for TD Waterhouse prepared by Ameritrade management after giving pro forma effect to the Reorganization. Citigroup calculated the multiple of the implied transaction value based on the closing price of Ameritrade common stock on May 4, 2005 (the last trading day prior to press reports regarding E\*TRADE's proposal to merge with Ameritrade) and June 21, 2005 to TD Waterhouse's September fiscal 2005 estimated revenue, pre-tax income prior to advertising expense and net income and to TD Waterhouse's September fiscal 2006 estimated net income. Citigroup also calculated the multiple of the implied transaction value to September fiscal 2005 and

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September fiscal 2006 estimated net income assuming fully phased-in pre-tax cost and revenue synergies of \$378 million and \$200 million, respectively.

The following table presents the results of these calculations:

	Closing Price	
	May 4, 2005	June 21, 2005
<b>Stock Price</b>	\$ 10.78	\$ 14.82
<b>Transaction Value (in millions)</b>	\$ 2,091	\$ 2,874
<b>Price as a Multiple of:</b>		
September Fiscal 2005 Estimated Revenue	2.6x	3.6x
September Fiscal 2005 Estimated Pre-Tax, Pre-Advertising Income	8.6x	11.8x
September Fiscal 2005 Estimated Net Income	20.6x	28.3x
September Fiscal 2006 Estimated Net Income	17.9x	24.6x
September Fiscal 2005 Estimated Net Income with Synergies	4.9x	6.7x
September Fiscal 2006 Estimated Net Income with Synergies	4.7x	6.5x

**Comparable Companies Analysis**

Citigroup reviewed market values and trading multiples for the following three publicly held companies in the on-line brokerage industry and compared them with financial data for TD Waterhouse prepared by Ameritrade management, which gave pro forma effect to the Reorganization:

The Charles Schwab Corporation

E\*TRADE; and

Ameritrade.

All multiples were based on closing stock prices on May 4, 2005, the last trading day before press reports regarding E\*TRADE's proposal to merge with Ameritrade. The forecasted financial information used by Citigroup for the selected comparable companies in the course of this analysis was based on information it obtained from Institutional Brokers Estimate System, or IBES, estimates. Given that the multiples derived from this comparable companies analysis for The Charles Schwab Corporation and E\*TRADE were based on Wall Street consensus estimates, the forecasted financial information used by Citigroup for Ameritrade also was based on Wall Street consensus estimates. IBES is a database owned and operated by Thomson Financial, which contains estimated and actual earnings, cash flows, dividends, sales and pre-tax income data for companies in the U.S., Europe, Asia and emerging markets.

For each of the selected comparable companies, Citigroup derived and compared, among other things: the ratio of price to last twelve months earnings, September fiscal 2005 estimated earnings, next twelve months estimated earnings, and September fiscal 2006 estimated earnings;

the ratio of firm value to September fiscal 2005 and September fiscal 2006 estimated revenue; and

the ratio of firm value to September fiscal 2005 and September fiscal 2006 estimated earnings before interest, taxes, depreciation and amortization (EBITDA).

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The following table sets forth the results of this analysis.

	<b>Comparable Companies at May 4, 2005 Closing Price</b>	
	<b>Range</b>	<b>Median</b>
<b>Ratio of Price to:</b>		
Last Twelve Months Earnings	11.5x - 23.0x	14.5x
September fiscal 2005 Estimated Earnings	11.2x - 21.1x	13.6x
Next Twelve Months Estimated Earnings	10.7x - 19.0x	12.7x
September fiscal 2006 Estimated Earnings	10.3x - 17.6x	12.3x
<b>Ratio of Firm Value to:</b>		
September fiscal 2005 Estimated Revenue	2.8x - 4.2x	2.9x
September fiscal 2006 Estimated Revenue	2.6x - 4.0x	2.7x
<b>Ratio of Firm Value to:</b>		
September fiscal 2005 Estimated EBITDA	6.3x - 9.9x	7.6x
September fiscal 2006 Estimated EBITDA	5.4x - 8.7x	7.1x

Based on this analysis, Citigroup derived a reference range for the implied equity value of TD Waterhouse, after giving pro forma effect to the Reorganization, of approximately \$1.3 billion to \$1.5 billion. Citigroup calculated that this range of implied equity value would result in implied equity ownership by TD in the combined company, calculated by dividing the implied equity valuation by the sum of Ameritrade's market capitalization as of May 4, 2005 and the implied equity valuation, of approximately 23% to 25%.

***Precedent Transactions Analysis***

Citigroup reviewed multiples of price paid to last twelve months revenues and number of funded accounts based upon non-public information provided by Ameritrade regarding five acquisition transactions in the on-line brokerage industry. Based upon this information and financial data for TD Waterhouse prepared by Ameritrade management, Citigroup derived a reference range for the implied equity value of TD Waterhouse, after giving pro forma effect to the Reorganization, of approximately \$1.6 billion to \$2.3 billion. Citigroup calculated that this range of implied equity value would result in a range of implied equity ownership by TD in the combined company, calculated by dividing the implied equity valuation by the sum of Ameritrade's market capitalization as of May 4, 2005 and the implied equity valuation, of approximately 26% to 34%. Based upon the transaction multiples for the single precedent transaction Citigroup believed to be most comparable to the acquisition of TD Waterhouse, Citigroup derived a reference range for the implied equity value of TD Waterhouse of approximately \$2.7 billion to \$3.2 billion, which would result in a range of implied equity ownership by TD in the combined company of approximately 38% to 42%. Based upon the transaction multiples for all precedent transactions reviewed by Citigroup, Citigroup derived a reference range for the implied equity value of TD Waterhouse of approximately \$1.6 billion to \$2.3 billion, which would result in a range of implied equity ownership by TD in the combined company of approximately 26% to 34%.

***Discounted Cash Flow Analysis***

Citigroup performed a discounted cash flow analysis to calculate the estimated present value of the standalone unlevered, after-tax free cash flows that TD Waterhouse could generate over September fiscal 2005 through September fiscal 2009 based upon estimated financial data for TD Waterhouse prepared by Ameritrade management, which gave pro forma effect to the Reorganization. Citigroup also performed a discounted cash flow analysis to calculate the estimated present value of the unlevered, after-tax free cash flows that TD Waterhouse could generate over the same period taking into account 100% of approximately \$378 million in annual cost savings synergies estimated by Ameritrade management to result from the acquisition of TD Waterhouse, phased-in at 33.8% in fiscal 2006, 87.5% in fiscal 2007 and 100% in fiscal



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2008. In addition, Citigroup performed a discounted cash flow analysis to calculate the estimated present value of the unlevered, after-tax free cash flows that TD Waterhouse could generate over the same period taking into account 100% of approximately \$378 million in annual cost savings synergies, phased-in as described above, and approximately \$161 million in annual revenue synergies (net of attrition) estimated by Ameritrade management to result from the acquisition of TD Waterhouse, phased-in at 56.6% in fiscal 2006, 97.1% in fiscal 2007 and 100% in fiscal 2008.

In each case, Citigroup calculated a range of estimated terminal values by applying a range of terminal net income multiples of 13.5x - 15.5x to TD Waterhouse's September fiscal 2009 estimated net income. The present value of the cash flows and terminal values were calculated using discount rates ranging from 13.2% to 15.2%. This analysis indicated the following approximate implied equity value reference ranges for TD Waterhouse and implied equity ownership ranges for TD in the combined company as compared to the actual equity ownership of TD following the acquisition of TD Waterhouse.

	<b>Implied Equity Value Reference Range (\$ in millions)</b>	<b>Implied TD Equity Ownership Range</b>	<b>Actual TD Equity Ownership Following Acquisition of TD Waterhouse</b>
TD Waterhouse Standalone	\$ 1,700 - \$1,800	28% - 29%	32%
TD Waterhouse with 100% of Cost Synergies	\$ 3,900 - \$4,300	47% - 49%	32%
TD Waterhouse with 100% of Cost and Revenue Synergies	\$ 4,900 - \$5,400	52% - 55%	32%

**Contribution Analysis**

Based upon historical operating and financial information for the 12 months ended March 2005 and Ameritrade and TD Waterhouse management estimates of future operating and financial information for fiscal 2005 for Ameritrade and September fiscal 2005 for TD Waterhouse, in each case after giving effect to the Canadian share purchase and the Reorganization, respectively, Citigroup reviewed the implied ownership percentages of TD in the combined company based upon the relative contribution of TD Waterhouse to the combined company on a pro forma basis in terms of daily average revenue trades (DARTs), client accounts, revenue, pre-tax income and pre-tax income prior to advertising expense. Citigroup compared the results of this analysis with implied ownership percentages in the combined company for TD derived from the analyses described above under Comparable Companies Analysis, Precedent Transactions Analysis and Discounted Cash Flow Analysis.

Citigroup calculated the overall mean of the implied TD ownership percentages based upon the foregoing analysis, without taking into account any cost savings or revenue synergies. Citigroup also calculated this overall mean applying to TD Waterhouse 50% and 100%, respectively, of the approximate \$3.4 billion estimated present value of the approximately \$378 million in annual cost savings synergies, phased-in at 33.8% in fiscal 2006, 87.5% in fiscal 2007 and 100% in fiscal 2008, and approximately \$161 million in annual revenue synergies (net of attrition) estimated by Ameritrade management to result from the acquisition of TD Waterhouse, phased-in at 56.6% in fiscal 2006, 97.1% in fiscal 2007 and 100% in fiscal 2008, based upon a terminal multiple of 14.5x fiscal 2009 total after-tax synergies and a discount rate of 14.2%.

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The following table presents the results of this analysis:

	<b>Actual Pro Forma Ownership of TD</b>
	32%
	<b>Implied TD Ownership</b>
<b>Contribution to Historical Operating Data 12 Months Ended March 2005</b>	
Daily Average Revenue Trades (DARTs)	31.2%
Client Accounts	38.4%
Revenues	44.9%
Adjusted Pre-Tax Income	15.4%
Adjusted Pre-Tax, Pre-Advertising Income	22.4%
<b>Mean</b>	<b>30.5%</b>
<b>Contribution to Projected Operating Data Fiscal 2005</b>	
DARTs	32.3%
Client Accounts	36.3%
Revenues	45.9%
Pre-Tax Income	25.2%
Pre-Tax, Pre-Advertising Income	29.6%
<b>Mean</b>	<b>33.8%</b>
<b>Relative Valuation</b>	
Comparable Public Companies	24.6%
Precedent Transactions	33.9%
Discounted Cash Flow	25.7%
<b>Mean</b>	<b>28.1%</b>
<b>Overall Mean (Without Synergies)</b>	<b>30.8%</b>
<b>Overall Mean (50% of Synergies to TD Waterhouse)</b>	<b>36.1%</b>
<b>Overall Mean (100% of Synergies to TD Waterhouse)</b>	<b>50.0%</b>

**Pro Forma Merger Analysis**

Citigroup analyzed the pro forma impact of the acquisition of TD Waterhouse on projected earnings per share (EPS) for Ameritrade, based upon earnings estimates prepared by Ameritrade management. The effect on EPS was calculated using various assumptions, including the following:

the transaction closing date is September 30, 2005;

incurrence of approximately \$1.9 billion in indebtedness to pay the special dividend;

approximately \$378 million in annual pre-tax cost savings synergies, phased-in at 33.8% in fiscal 2006, 87.5% in fiscal 2007 and 100% in fiscal 2008, and approximately \$161 million in annual pre-tax revenue synergies (net of attrition), phased-in at 56.6% in fiscal 2006, 97.1% in fiscal 2007 and 100% in fiscal 2008;

100% of available cash flow (determined based on Ameritrade management estimates) is used to pay-down indebtedness, and 99% of any remaining cash flow is used to repurchase shares of Ameritrade common stock; and

amortization expense of approximately \$38.1 million pre-tax per year of purchase price attributed to identifiable intangibles over 20 years.

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For each of fiscal years 2006, 2007 and 2008, Citigroup compared the EPS of Ameritrade common stock to the EPS, on both a GAAP basis and a cash basis, of the combined company common stock using the foregoing assumptions. The following table sets forth the results of this analysis:

	<b>GAAP Basis Accretion/ (Dilution)</b>	<b>Cash Basis Accretion/ (Dilution)</b>
2006E EPS	(10.6)%	(6.8)%
2007E EPS	17.8%	20.5%
2008E EPS	25.1%	27.3%

*Internal Rate of Return Analysis*

Based upon estimated financial data for TD Waterhouse, after giving effect to the Reorganization, prepared by Ameritrade management, Citigroup calculated Ameritrade's internal rate of return over the four fiscal years ended 2009 assuming a transaction value of approximately \$2.9 billion based on the closing price of the Ameritrade common stock of \$14.82 on June 21, 2005. Citigroup calculated internal rates of return (IRR) by applying a range of terminal net income multiples of 13.5x to 15.5x to estimated fiscal 2009 net income (1) without synergies, (2) assuming 100% of cost savings synergies, and (3) assuming 100% of cost savings and revenue synergies.

The following table sets forth the results of this analysis:

	<b>IRR Range</b>	
	<b>13.5x Terminal Multiple</b>	<b>15.5x Terminal Multiple</b>
No Synergies	(1.5)%	1.5%
Cost Savings Only	27.9%	31.7%
Cost Savings and Revenue Synergies	36.8%	40.8%

*Current Equity Value Analysis*

Based upon an implied market capitalization of Ameritrade of approximately \$4.4 billion and an implied transaction value of approximately \$2.1 billion, in each case based upon the closing price of Ameritrade common stock of \$10.78 on May 4, 2005, and taking into account the present value of the fully phased-in cost savings and revenue synergies estimated by Ameritrade management described under Contribution Analysis above and assuming that \$5.00 per share of the special dividend will be funded with debt, Citigroup calculated an illustrative value per share of Ameritrade common stock of \$18.93, giving effect to the special dividend and the acquisition of TD Waterhouse. Citigroup also calculated an illustrative value per share of Ameritrade common stock of \$19.28, assuming the acquisition by TD of additional shares of Ameritrade common stock, resulting in TD owning 39.9% of the outstanding shares of TD Ameritrade common stock, pursuant to the contemplated post-closing tender offer.

*Present Value of Potential Stock Price Analysis*

Citigroup calculated an illustrative present value per share of Ameritrade common stock of \$19.57 based upon Ameritrade management's forecast fiscal 2008 earnings per share, Ameritrade's multiple of price to next 12 months earnings per share as of May 6, 2005, a discount rate of 14.5% and an assumed special dividend of \$6.00 per share. Citigroup also calculated an illustrative value per share of \$19.93, assuming the acquisition by TD of additional shares of Ameritrade common stock, resulting in TD owning 39.9% of the outstanding shares of TD Ameritrade common stock, pursuant to the contemplated post-closing tender offer.



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***Other Factors***

In rendering its opinion, Citigroup also reviewed and considered other factors for informational purposes, including:

the trading volume of Ameritrade common stock at various price ranges during the period from January 2002 through May 2005;

historical stock price returns as of May 4, 2005 for Ameritrade; E\*TRADE; The Charles Schwab Corporation; the S&P Financials Index; a broker/ dealers index comprised of A.G. Edwards Holding, Jefferies Group, Inc, Piper Jaffray Companies, and Raymond James Financial Inc.; a banks index comprised of SunTrust Banks Inc., Fifth Third Bancorp, BB&T Corporation, National City Corporation, The PNC Financial Services Corporation, Regions Financial Corporation, Keycorp, North Fork Bancorp Inc., M&T Bank Corporation, Marshall & Illsley Corporation, Amsouth Bancorp, Zions Bancorp, Compass Bancshares Inc., Huntington Bancshares Inc. and First Horizon National Corp.; and the S&P 500 Index;

stock price returns for the period from May 4, 2005 to June 20, 2005 for Ameritrade, E\*TRADE, The Charles Schwab Corporation, the S&P Financials Index, the broker/ dealers index, the banks index and the S&P 500 Index; and

premiums to market prices per share paid in acquisitions of minority stakes of 21 public companies since 1995, 17 Dutch Auction self-tender offers since 2002 and four fixed price partial tender offers since July, 2003.

Based on the analyses described above, Citigroup determined that the consideration to be paid by Ameritrade in the acquisition of TD Waterhouse was fair, from a financial point of view, as of the date of the opinion, to Ameritrade.

Citigroup's advisory services and opinion were provided for the information of the Ameritrade board of directors and the special committee in connection with their evaluation of the proposed acquisition of TD Waterhouse and did not constitute a recommendation of the acquisition of TD Waterhouse to the Ameritrade board of directors or the special committee or a recommendation to any stockholder regarding how such stockholder should vote or act on any matters relating to the acquisition of TD Waterhouse, including whether any stockholder should tender shares of Ameritrade common stock in the tender offer to be made by TD following consummation of the acquisition of TD Waterhouse and in which J. Joe Ricketts may participate as a co-bidder.

The preceding discussion is a summary of the material financial analyses furnished by Citigroup to the Ameritrade board of directors and the special committee, but it does not purport to be a complete description of the analyses performed by Citigroup or of its presentation to the Ameritrade board of directors and the special committee. The preparation of financial analyses and fairness opinions is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. Citigroup made no attempt to assign specific weights to particular analyses or factors considered, but rather made qualitative judgments as to the significance and relevance of all the analyses and factors considered and determined to give its fairness opinion as described above. Accordingly, Citigroup believes that its analyses, and the summary set forth above, must be considered as a whole, and that selecting portions of the analyses and of the factors considered by Citigroup, without considering all of the analyses and factors, could create a misleading or incomplete view of the processes underlying the analyses conducted by Citigroup and its opinion. With regard to the comparable companies and precedent transactions analyses summarized above, Citigroup selected comparable public companies and precedent transactions on the basis of various factors, including size and similarity of the line of business of the relevant entities; however, no company utilized in these analyses is identical to TD Waterhouse and no precedent transaction is identical to the acquisition of TD Waterhouse. As a result, these analyses are not purely mathematical, but also take into account differences in financial and operating characteristics of the subject companies and other factors that could affect the acquisition of TD Waterhouse or public trading value of the subject companies to which TD Waterhouse is being compared.

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In its analyses, Citigroup made numerous assumptions with respect to Ameritrade, TD, TD Waterhouse, industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Ameritrade, TD and TD Waterhouse. Any estimates contained in Citigroup's analyses are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by these analyses. Estimates of values of companies do not purport to be appraisals or necessarily to reflect the prices at which companies may actually be sold. Because these estimates are inherently subject to uncertainty, none of Ameritrade, TD, TD Waterhouse, the Ameritrade board of directors, the special committee, Citigroup or any other person assumes responsibility if future results or actual values differ materially from the estimates.

Citigroup's analyses were prepared solely as part of Citigroup's analysis of the fairness of the consideration to be paid by Ameritrade in the acquisition of TD Waterhouse and were provided for the information of the Ameritrade board of directors and the special committee in that connection. The opinion of Citigroup was only one of the factors taken into consideration by the Ameritrade board of directors and the special committee in making its determination to approve the purchase agreement and the acquisition of TD Waterhouse. See "The Transaction" Ameritrade's Reasons for the Transaction beginning on page 48.

Citigroup is an internationally recognized investment banking firm engaged in, among other things, the valuation of businesses and their securities in connection with mergers and acquisitions, restructurings, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. Ameritrade and the special committee selected Citigroup to act as their financial advisor in connection with the acquisition of TD Waterhouse on the basis of Citigroup's international reputation and Citigroup's familiarity with Ameritrade and TD Waterhouse.

Pursuant to its engagement letter with Ameritrade and the special committee, Ameritrade agreed to pay Citigroup a fee of \$7.5 million, of which \$240,000 became payable upon execution of the February 13, 2005 engagement letter, \$500,000 became payable upon execution of the May 11, 2005 engagement letter and \$2 million of which became payable upon execution of the share purchase agreement and delivery of Citigroup's opinion. The balance is payable promptly upon consummation of the acquisition of TD Waterhouse. Ameritrade has also agreed to indemnify Citigroup against specific liabilities and expenses relating to or arising out of its engagement, including liabilities under the federal securities laws. Citigroup and its affiliates in the past have provided services to Ameritrade, TD and their respective affiliates unrelated to the acquisition of TD Waterhouse, for which services Citigroup and its affiliates have received compensation including, without limitation, advising Ameritrade on its acquisition of National Discount Brokers Corporation from Deutsche Bank in 2001 and on its acquisition of Datek in 2002, acting as a joint bookrunner on a \$543 million secondary offering of Ameritrade stock in 2003, executing secondary market transactions for selling stockholders of Ameritrade in 2004, executing derivative structures in 2001 and 2003, acting as underwriter in connection with the initial public offering of TD Waterhouse in 1999, and acting as financial advisor to a special committee of the board of directors of TD Waterhouse in connection with the tender offer by TD and Waterhouse Holdings, Inc. for all of the outstanding shares of TD Waterhouse in 2001. Subsequent to Ameritrade's announcement of its proposed acquisition of TD Waterhouse and Citigroup's rendering of its opinion, Ameritrade requested Citigroup to assist it in raising debt financing in connection with the special dividend and for other corporate purposes, and Citigroup is acting as sole bookrunner in connection with the offering by Ameritrade of approximately \$2 billion of debt financing. In the ordinary course of its business, Citigroup and its affiliates may actively trade or hold the securities of Ameritrade and TD for its own account or for the account of its clients and, accordingly, may at any time hold a long or short position in such securities. Subsequent to Ameritrade's announcement of its proposed acquisition of TD Waterhouse and Citigroup's rendering of its opinion, Citigroup was approached by TA Associates with respect to a possible forward sale transaction involving shares of our stock held by TA Associates. Ameritrade has approved the participation by Citigroup (or an affiliate of Citigroup) in the execution of any such hedging transaction. In addition, Citigroup and its

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affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with Ameritrade, TD and their respective affiliates.

**Interests of Ameritrade's Executive Officers and Directors in the Transaction**

When you are considering our board of directors' recommendation to vote in favor of the proposals (and sub-proposals) presented in this proxy statement, you should be aware that Ameritrade's directors and executive officers have interests in the transactions contemplated by the acquisition of TD Waterhouse which may be in addition to, or different from, your interests. The Ameritrade board of directors was aware of these factors and considered them, among other matters, in approving the share purchase agreement, the transactions contemplated thereby and the proposed amendment and restatement of Ameritrade's certificate of incorporation. These interests are described below.

***New or Amended Employment Agreements***

We expect that Mr. Moglia will continue to serve as Chief Executive Officer of TD Ameritrade and that J. Joe Ricketts will continue to serve as Chairman of TD Ameritrade. Ameritrade is currently negotiating a new employment agreement with Mr. Moglia with respect to his continued employment. In addition, Ameritrade may negotiate and enter into, prior to the closing, and after consultation with TD, new or amended employment agreements with other executive officers.

***Stockholders Agreement and Registration Rights Agreement***

Under the terms of the stockholders agreement, the Ricketts holders have, among other things, specified rights relating to board representation and the ability to acquire additional TD Ameritrade securities to maintain their share ownership, including the right to purchase up to their respective proportionate share of future issuances of TD Ameritrade common stock, other than in connection with TD Ameritrade common stock issued as consideration in an acquisition by TD Ameritrade and certain other issuances specified in the stockholders agreement. The Ricketts holders also have the right to approve candidates for the outside independent director positions on the TD Ameritrade board of directors.

Furthermore, under the terms of the amended and restated registration rights agreement, specified Ameritrade directors or their affiliates, including J. Joe Ricketts, and the SLP holders, which are affiliated with Glenn H. Hutchins and Michael J. Bingle, will continue to be entitled to registration rights with respect to their securities of TD Ameritrade. In addition, upon the withdrawal of certain of those affiliated entities from the registration rights agreement, the Ricketts holders will receive additional registration rights with respect to their Ameritrade common stock. Ameritrade has also agreed to provide the Ricketts holders and certain entities affiliated with Glenn H. Hutchins and Michael J. Bingle with "piggy back" registration rights, such that if at any time Ameritrade proposes to file a registration statement with respect to any offering of its securities for its own account or for the account of any stockholder who holds its securities (subject to certain exceptions), then Ameritrade must give written notice of such proposed filing to all holders of registrable securities, and such notice shall offer the holders of such registrable securities the opportunity to register such number of registrable securities as each such holder may request in writing.

***Ownership of Ameritrade Common Stock***

In connection with the acquisition of TD Waterhouse, directors and executive officers of Ameritrade, who beneficially own approximately 125,509,352 shares of Ameritrade common stock as of September 2, 2005 will receive an aggregate of approximately \$753.1 million as a result of the payment of the proposed special dividend of \$6.00 per share assuming the timely exercise of all vested options. The beneficial ownership of directors and executive officers of Ameritrade includes options to purchase 15,011,909 shares of Ameritrade common stock exercisable within 60 days of September 2, 2005. In particular, based on J. Joe Ricketts' beneficial ownership of Ameritrade common stock as of September 2, 2005, Mr. Ricketts will receive approximately \$535.9 million as a result of the payment of the proposed special dividend, assuming timely exercise of all vested options.

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In connection with the proposed special dividend, Ameritrade will adjust outstanding equity awards under its stock option plans to preserve the pre-dividend economic value of the award after payment of the special dividend. As of September 2, 2005, directors and executive officers of Ameritrade collectively held options (vested and unvested) to purchase 16,414,002 shares of common stock. These options will be adjusted unless exercised prior to the ex-dividend date.

In addition, following the closing of the acquisition of TD Waterhouse, J. Joe Ricketts, if he elects to participate as a co-bidder with TD, will commence a tender offer, at a price of at least \$16 per share (on an ex-dividend basis), for a number of shares of TD Ameritrade common stock such that, upon successful completion of the offer, J. Joe Ricketts and his affiliates will collectively own up to 29% of the outstanding TD Ameritrade common stock.

Other than as set forth above, no director or executive officer of Ameritrade has any direct or indirect material interest in the acquisition of TD Waterhouse, except insofar as ownership of Ameritrade common stock might be deemed such an interest. See *Stock Ownership of Certain Beneficial Owners and Management of Ameritrade* beginning on page 184.

**Directors and Management of TD Ameritrade Following the Acquisition of TD Waterhouse*****Composition of TD Ameritrade Board of Directors Following the Completion of the Transaction***

Ameritrade's board of directors is currently comprised of eight directors and divided into three classes, with each class serving a staggered three-year term. Following the completion of the acquisition of TD Waterhouse, the board of directors of TD Ameritrade will continue to be classified into three classes, with each class serving staggered, three-year terms. The board of directors will consist of 12 members, and the persons to be nominated for election as directors of TD Ameritrade will be designated as follows:

the Ricketts holders will have the right to designate three directors, initially J. Joe Ricketts, J. Peter Ricketts and Thomas S. Ricketts (each of whom will be assigned to a different class of directors, as designated by the Ricketts holders);

TD will initially have the right to designate five directors (one of whom will be a class I director, two of whom will be class II directors and two of whom will be class III directors, as designated by TD);

the individual serving as chief executive officer of TD Ameritrade, who will initially be Joseph H. Moglia (who will be a class I director); and

three of the directors will be outside independent directors, who will initially be Michael D. Fleisher, Glenn H. Hutchins, and Michael J. Bingle (each of whom will be assigned to a different class of directors, as mutually agreed among themselves prior to the closing of the acquisition of TD Waterhouse).

The right of each of TD and the Ricketts holders to designate directors is subject to their maintenance of specified ownership thresholds of TD Ameritrade common stock as set forth in the stockholders agreement. The stockholders agreement also sets forth procedures by which outside director vacancies will be filled. See *Proposal No. 1: The Issuance of Shares Under the Share Purchase Agreement - Certain Agreements Related to the Acquisition of TD Waterhouse - Stockholders Agreement* beginning on page 91.

***Controlled Company Exemption***

Following the completion of the acquisition of TD Waterhouse, we expect that TD Ameritrade will qualify as a controlled company, as that term is defined by Rule 4350(c) of the NASD Marketplace Rules. A controlled company is a company of which more than 50% of the voting power is held by an individual, group or another company. Immediately after the completion of Ameritrade's acquisition of TD Waterhouse, TD and the Ricketts holders will collectively own more than 50% of the voting power of the outstanding common stock of TD Ameritrade. Accordingly, we believe that TD Ameritrade will be

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exempt from the requirements of NASD Rule 4350(c) that would otherwise require TD Ameritrade to have:

a majority of independent directors;

a compensation committee composed solely of independent directors;

a nominating committee composed solely of independent directors;

compensation of our executive officers determined by a majority of independent directors or a compensation committee composed solely of independent directors; and

director nominees selected, or recommended for the board of directors selection, either by a majority of the independent directors or a nominating committee composed solely of independent directors.

***Management of TD Ameritrade following the Acquisition of TD Waterhouse***

We expect that Mr. Moglia will continue to serve as Chief Executive Officer of TD Ameritrade, that J. Joe Ricketts will continue to serve as Chairman of TD Ameritrade and that W. Edmund Clark will serve as Vice Chairman of TD Ameritrade.

**Certain Material U.S. Federal Income Tax Consequences**

The following is a summary of the material U.S. federal income tax consequences of the acquisition of TD Waterhouse, including the special dividend, which are applicable to holders of Ameritrade common stock. This summary is based on the provisions of the Code, the Treasury Regulations promulgated thereunder, judicial decisions, administrative rulings and other legal authorities, all as of the date hereof and all of which are subject to change, possibly with retroactive effect. This summary does not address all of the U.S. federal income tax consequences that may be relevant to a holder of Ameritrade common stock, including holders who, in light of their particular circumstances, may be subject to special rules, including, without limitation, mutual funds, retirement plans, financial institutions, partnerships or other pass through entities for U.S. federal income tax purposes, tax-exempt organizations, insurance companies, dealers in securities, traders who mark to market, expatriates, stockholders who hold their Ameritrade common stock as part of a straddle, hedge or conversion transaction, corporations that accumulate earnings to avoid U.S. federal income tax, controlled foreign corporations, passive foreign investment companies and stockholders who are subject to the alternative minimum tax. This discussion assumes that stockholders hold their Ameritrade common stock as capital assets within the meaning of Section 1221 of the Code. In addition, the discussion does not address any aspect of state, local, non-U.S. or other federal taxation that may be applicable to a particular holder of Ameritrade common stock.

**EACH HOLDER OF AMERITRADE COMMON STOCK SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISORS TO DETERMINE THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES APPLICABLE TO SUCH HOLDER AS A RESULT OF THE ACQUISITION OF TD WATERHOUSE, INCLUDING THE SPECIAL DIVIDEND, AND ANY STATE, LOCAL, NON-UNITED STATES OR OTHER FEDERAL TAX CONSEQUENCES RELEVANT TO SUCH HOLDER AS A RESULT OF THE ACQUISITION OF TD WATERHOUSE, INCLUDING THE SPECIAL DIVIDEND.**

If a partnership holds Ameritrade common stock, the tax treatment of a partner will generally depend on the status of the partners and the activities of the partnership. If you are a partner of a partnership holding Ameritrade common stock, you should consult your tax advisor.

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For purposes of the following discussion, a U.S. holder is a holder of Ameritrade common stock who, for U.S. federal income tax purposes, is:

a citizen or resident of the U.S.;

a corporation or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S. or of any state or under the laws of the District of Columbia;

an estate, the income of which is subject to federal income taxation regardless of its source; or

a trust (1) whose administration is under the primary supervision of a U.S. court and with respect to which one or more U.S. persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

A non-U.S. holder is a person (other than a partnership) that is not a U.S. holder.

***The Acquisition of TD Waterhouse and the Sale of Ameritrade Canada***

Ameritrade's purchase of all of the capital stock of TD Waterhouse pursuant to the share purchase agreement will not result in the recognition of gain or loss by holders of Ameritrade common stock. Similarly, Ameritrade's sale of all of the capital stock of Ameritrade Canada to TD Waterhouse Canada Inc. pursuant to the Canadian purchase agreement will not result in the recognition of gain or loss by holders of Ameritrade common stock.

***The Special Dividend***

*Taxation of U.S. Holders*

A portion of the special dividend will be treated as qualified dividend income to the extent paid out of Ameritrade's current or accumulated earnings and profits, as determined under the Code, for the calendar year in which the special dividend is paid. The portion of the special dividend that will be taxable as qualified dividend income will not be determined until after December 31 of the year in which the special dividend is paid. With the assumption that current market conditions continue through the end of calendar year 2005, and that the special dividend is paid by December 31, 2005, based on preliminary estimates of Ameritrade's earnings and profits for tax purposes, it is anticipated that between approximately 25% to 30% of the special dividend received by each holder of Ameritrade common stock will be treated as qualified dividend income for United States federal income tax purposes. The portion of the special dividend that will be taxable as qualified dividend income may be more or less than these estimated percentages, depending on the actual results of Ameritrade's operations through the close of the 2005 calendar year, if the special dividend is paid in 2005, or the 2006 calendar year, if the special dividend is paid in 2006. Any portion of the special dividend in excess of each holder's pro rata share of Ameritrade's earnings and profits will be treated first as a tax-free return of capital up to each holder's basis in its shares of Ameritrade common stock, with any remainder treated as a capital gain.

A non-corporate U.S. holder of Ameritrade common stock may be eligible to be taxed at a 15% (or lower) federal income tax rate on any portion of the special dividend constituting qualified dividend income for U.S. federal income tax purposes, provided that a minimum holding period and other requirements are satisfied. The 15% (or lower) tax rate for qualified dividend income is available only if the shares of Ameritrade common stock have been held for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date.

U.S. holders that are domestic corporations may generally be eligible for a dividends received deduction with respect to the portion of the special dividend constituting a dividend for U.S. federal income tax purposes, subject to certain limitations.

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The portion of the special dividend that is treated as a dividend for U.S. federal income tax purposes may also be considered extraordinary depending on the facts and circumstances of the holder. Treatment of the dividend as extraordinary may affect an individual U.S. holder's characterization of the sale of its Ameritrade common stock and a corporate holder's basis in its Ameritrade common stock.

Generally, information reporting requirements will apply to the payment of the special dividend, and the payor of the special dividend will be required to collect backup withholding at a rate of 28%, unless the U.S. holder provides the payor with its correct taxpayer identification number and certifies that such holder is not subject to or is exempt from backup withholding. Certain U.S. holders, including corporations, are generally exempt from backup withholding. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules from a payment to a U.S. holder will be allowed as a credit against such holder's U.S. federal income tax liability, if any, and may entitle the holder to a refund provided that such holder furnishes the required information to the IRS in a timely manner.

*Taxation of Non-U.S. Holders*

The special dividend will generally be subject to withholding of U.S. federal income tax on a gross basis at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty between the U.S. and the non-U.S. holder's country of tax residence, unless the special dividend is treated as effectively connected with the conduct by the non-U.S. holder of a U.S. trade or business. In order for a lower withholding rate to apply pursuant to an applicable income tax treaty, the non-U.S. holder must provide the payor with certification on IRS Form W-8BEN, Certificate of Foreign Status of Beneficial Owner for U.S. Tax Withholding, establishing such holder's non-U.S. status and beneficial ownership of the Ameritrade common stock and claiming a reduced rate of dividend withholding. The non-U.S. holder must generally include a U.S. taxpayer identification number on the IRS Form W-8BEN. If the special dividend is effectively connected with a U.S. trade or business, the non-U.S. holder will be exempt from withholding and will instead be subject to tax on a net basis (that is, after allowance of deductions) at graduated rates and may also be subject to an additional branch profits tax at a rate of 30% or such lower rate as may be specified by an applicable income tax treaty. In order to claim such an exemption, the non-U.S. holder must provide the payor with certification on IRS Form W-8ECI, Certificate of Foreign Person's Claim for Exemption From Withholding on Income Effectively Connected With the Conduct of a Trade or Business in the U.S.

Non-U.S. holders that are intermediaries or partnerships must provide the payor with IRS Form W-8IMY, Certificate of Foreign Intermediary, Foreign Partnership, or Certain U.S. Branches for U.S. Tax Withholding, certifying that such holder is assuming primary responsibility for withholding and reporting pursuant to an agreement with the Internal Revenue Service, or establishing that such holder is not the beneficial owner of the Ameritrade common stock and is using the IRS Form W-8IMY to transmit the appropriate forms of the beneficial owners.

Non-U.S. holders that provide the payor with an IRS Form W-8ECI, IRS Form W-8BEN or IRS Form W-8IMY are generally exempt from the backup withholding requirements applicable to U.S. holders. Such forms may be obtained from the payor or from [www.irs.gov](http://www.irs.gov).

Non-U.S. holders are strongly urged to consult their own tax advisors regarding their eligibility for reduced rates of withholding pursuant to an applicable income tax treaty and the certification requirements for claiming such reduced withholding rates.

**Anticipated Accounting Treatment**

The acquisition of TD Waterhouse will be accounted for using the purchase method of accounting under Statement of Financial Accounting Standards No. 141, *Business Combinations*. Ameritrade is the acquiring entity. Under the purchase method of accounting, the aggregate cost of the acquired entity, TD Waterhouse, will be allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values, with any excess being recognized as goodwill. Under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, goodwill will not be amortized, but will be subject to an impairment test at least annually.

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### **Regulatory Matters Related to the Acquisition of TD Waterhouse**

TD and Ameritrade are required, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, to notify and furnish required information to the Antitrust Division of the U.S. Department of Justice and to the U.S. Federal Trade Commission prior to completing the acquisition of TD Waterhouse. We and TD have made these filings, but the acquisition of TD Waterhouse cannot be completed until the required waiting period (and any extension thereto) has expired or been earlier terminated.

TD and Ameritrade have furnished certain information to the NASD regarding the acquisition of TD Waterhouse in compliance with applicable requirements under NASD Membership and Registration Rules. The change of equity ownership of TD's and Ameritrade's broker-dealer subsidiaries resulting from the acquisition of TD Waterhouse requires NASD approval.

TD and Ameritrade have furnished certain information to the New York Stock Exchange regarding the acquisition of TD Waterhouse in compliance with applicable requirements under New York Stock Exchange Membership Rules. The closing of the acquisition of TD Waterhouse is subject to the furnished information being posted in the New York Stock Exchange's weekly bulletin to members. The furnished information must be posted for two consecutive weeks before the closing of the acquisition of TD Waterhouse can occur.

Under the Canadian Bank Act, TD is required to obtain the prior approval of the Canadian Minister of Finance to acquire beneficial ownership of more than 10% of the voting shares of Ameritrade, or to subsequently acquire any shares that would result in an increase in the size of its investment. TD has applied for the required approvals.

### **No Appraisal Rights**

Under applicable law, Ameritrade stockholders do not have the right to an appraisal of the value of their shares in connection with the acquisition of TD Waterhouse.

### **Litigation Relating to the Transaction**

In May 2005, four putative stockholder class action lawsuits were filed in the Court of Chancery of the State of Delaware against Ameritrade and the members of its board of directors. The complaints allege that the directors breached their fiduciary duties by, among other things, refusing to consider a business combination proposal from E\*TRADE. The plaintiffs bring the lawsuits on behalf of themselves and other stockholders of Ameritrade and seek declaratory and injunctive relief, and unspecified damages. The four cases are captioned: *Judith Friedman v. J. Joe Ricketts, et al.*; *Margaret Carroll v. Ameritrade Holding Corporation, et al.*; *Irgun Shiurai Torah v. Ameritrade Holding Corporation, et al.*; and *Mirfred Partners LLC v. J. Joe Ricketts, et al.* By order entered May 31, 2005, the cases have been consolidated under the caption *In re Ameritrade Holding Corp. Shareholders Litigation*, Consolidated Civil Action No. 1346-N (Del. Ch.). Under the order, plaintiffs are to file a consolidated amended complaint and Ameritrade and its directors are not required to respond to the original complaints. To date, the plaintiffs have not filed a consolidated amended complaint. Ameritrade and the members of its board of directors believe that the lawsuits are without merit and intend to vigorously defend against them.

### **Treatment of TD Equity Awards Held by TD Waterhouse Employees**

TD has agreed to retain and continue to expense and administer all outstanding options to acquire TD common shares that TD Waterhouse employees have been granted prior to the closing. However, with respect to restricted stock units relating to TD common shares which are to be settled in cash and which were granted by TD to TD Waterhouse employees, TD has agreed to transfer the vested liability with respect to such restricted stock units, and a corresponding offsetting hedge, to Ameritrade at closing so that Ameritrade will become responsible, up to a specified amount, for the liability associated with the unvested restricted stock units. TD has agreed to continue to administer the restricted stock unit program at its own expense after the closing.

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**THE SPECIAL DIVIDEND**

Under the terms of the share purchase agreement, the Ameritrade board of directors will declare a special dividend of \$6.00 per share if sufficient funds are available for the dividend and such declaration and payment is permitted by applicable law, which will only be payable if the acquisition of TD Waterhouse is completed. The board will declare the special dividend prior to the closing date, and the special dividend will have a record date prior to the closing date of the acquisition of TD Waterhouse. It is a condition to Ameritrade's and TD's obligation to consummate the acquisition of TD Waterhouse that Ameritrade (1) has available to it sufficient funds, and is permitted under applicable law, to pay the special dividend, and (2) has duly declared the special dividend.

The dates described below are the key dates relating to the declaration and payment of the special dividend.

*Declaration date* This is the date on which Ameritrade's board of directors (1) decides that Ameritrade will pay the special dividend and (2) sets the record date and the payable date for the special dividend.

*Record date* This is the date set by Ameritrade for the purpose of determining its stockholders of record and the stock outstanding on the record date. The special dividend will be paid only on shares of Ameritrade common stock outstanding on the record date. We expect that the record date for the proposed special dividend will be a date at least 10 calendar days after the declaration date and approximately 10 business days before the expected closing date of the acquisition of TD Waterhouse.

*Payable date* This is the date that Ameritrade will pay the special dividend. Please note that the actual receipt of the dividend by Ameritrade stockholders entitled to the special dividend may take several days following the payable date. We expect that the payable date for the special dividend will be the closing date of the acquisition of TD Waterhouse or the first trading day after the closing date.

*Ex-dividend date or ex-date* This is the date on and after which Ameritrade common stock trades in the Nasdaq National Market without the right to receive the special dividend. We expect that the ex-dividend date will be the first trading day after the payable date.

Because shares of Ameritrade common stock sold in the market after the record date and on or before the payable date include the right to receive the special dividend, if you purchase shares of Ameritrade common stock in the market on or before the payable date (whether or not you owned the shares on the record date) and hold those shares until after the market opens on the ex-dividend date, you will receive the special dividend on those shares. Accordingly,

If you sell shares of Ameritrade common stock in the market before the ex-dividend date (whether or not you owned the shares on the record date), you will not be entitled to the special dividend with respect to those shares.

If you buy shares of Ameritrade common stock in the market on or after the ex-dividend date, you will not be entitled to the special dividend with respect to those shares.

Your market trade does not need to settle by the payable date in order to receive the special dividend. Rather, if you buy shares of Ameritrade common stock in the market on or before the payable date and hold those shares until after the market opens on the ex-dividend date, you will receive the special dividend on those shares.

Stock options held by Ameritrade employees or directors are not entitled to cash dividends because dividends are paid on shares of stock outstanding as of the record date. Shares of stock underlying stock options that have not been exercised are not outstanding on the record date and therefore would not be entitled to the proposed special dividend. However, we believe it is appropriate that holders of outstanding equity awards be treated fairly with respect to the special dividend, and in accordance with the terms of our stock plans, we will adjust outstanding equity awards under the plans to preserve the pre-dividend economic value of the awards after payment of the proposed special dividend.

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In order to fund the special dividend, Ameritrade is permitted under the terms of the share purchase agreement to incur indebtedness for borrowed money of up to \$5.00 multiplied by the number of outstanding shares of Ameritrade common stock as of the record date for the special dividend. Ameritrade agreed to use all reasonable efforts to obtain adequate and appropriate financing facilities and other debt funding sources to provide the cash necessary to pay that portion of the special dividend not funded by other Ameritrade available excess cash or the TD capital contribution described below, in each case on terms reasonably acceptable to TD. Ameritrade further agreed to use all reasonable efforts to have such committed financing facilities and other debt funding sources available for drawdown by no later than the closing date, satisfy all conditions to such drawdown on a timely basis, and take all other corporate actions as may be necessary under applicable law to pay the special dividend.

TD agreed (1) to cause TD Waterhouse to be capitalized as of the record date for the special dividend with cash in an amount at least equal to the product of \$1.00 multiplied by the number of outstanding shares of Ameritrade common stock as of a date that is within three business days of the record date and (2) to cause TD Waterhouse to maintain that minimum cash capitalization until the closing. TD's obligation to capitalize TD Waterhouse is conditioned upon receipt of notice from Ameritrade at least 10 business days prior to the declaration of the special dividend.

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**PROPOSAL NO. 1  
THE ISSUANCE OF SHARES UNDER THE  
SHARE PURCHASE AGREEMENT**

Under the terms of the share purchase agreement, Ameritrade will acquire the U.S. retail securities brokerage business of TD Waterhouse. In connection with this acquisition, Ameritrade will issue 193,600,000 shares of Ameritrade common stock to TD, and/or one or more of TD's affiliates, in accordance with the terms of the share purchase agreement, subject to adjustment for stock dividends, stock splits or reclassifications (the Ameritrade Stock Issuance), and pay TD \$20,000 in cash in exchange for the outstanding capital stock of TD Waterhouse. Stockholders of Ameritrade are being asked to approve the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement.

The affirmative vote of the holders of a majority of the shares of Ameritrade common stock present in person or represented by proxy and voting on the matter is required to approve the Ameritrade Stock Issuance. The approval of Proposal No. 1 is a condition to the completion of the acquisition of TD Waterhouse, and thus a vote against Proposal No. 1 effectively will be a vote against the acquisition of TD Waterhouse.

**The Ameritrade board of directors has unanimously approved the Ameritrade Stock Issuance. Based on Ameritrade's reasons for the acquisition of TD Waterhouse described in this proxy statement, the board of directors of Ameritrade believes that the Ameritrade Stock Issuance and the transactions contemplated by the share purchase agreement are in the best interests of Ameritrade and its stockholders and unanimously recommends that you vote *FOR* approval of the Ameritrade Stock Issuance.**

**For a more detailed description of the share purchase agreement and the transactions contemplated thereby, see the sections entitled *The Share Purchase Agreement* beginning on page 69.**

**Table of Contents****THE SHARE PURCHASE AGREEMENT**

The following is a summary of selected provisions of the share purchase agreement, including the effects of those provisions. While Ameritrade and TD believe this description covers the material terms of the share purchase agreement, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the share purchase agreement, which is attached as Appendix A to this proxy statement and is incorporated by reference in this proxy statement. We urge you to read the entire share purchase agreement carefully.

The description of the share purchase agreement in this proxy statement has been included to provide you with information regarding its terms. The share purchase agreement contains representations and warranties made by and to Ameritrade and TD as of specific dates. The statements embodied in those representations and warranties were made for purposes of that contract between the parties and are subject to specified exceptions and qualifications agreed to by the parties in connection with negotiating the terms of that contract. In addition, certain representations and warranties were made as of a specified date and may be subject to contractual standards of materiality different from those generally applicable to Ameritrade or TD, or may have been agreed to for the purpose of allocating risk between the parties rather than establishing matters as facts.

**Consideration to be Paid in the Transaction**

Upon the terms and conditions contained in the share purchase agreement, Ameritrade will purchase from TD all of the capital stock of TD Waterhouse in exchange for 193,600,000 shares of Ameritrade common stock and \$20,000 in cash. The shares of Ameritrade common stock issued in connection with the acquisition of TD Waterhouse will represent approximately 32% of the outstanding shares of Ameritrade after giving effect to the acquisition of TD Waterhouse.

If, between the date of the share purchase agreement and the closing, Ameritrade pays a dividend in shares of Ameritrade common stock, subdivides, splits or combines the then-outstanding shares of Ameritrade common stock or issue additional shares of Ameritrade common stock by reclassification of such shares, then the number of shares of common stock to be issued to TD will be appropriately adjusted to provide TD the same economic effect as contemplated by the share purchase agreement prior to the relevant event.

**Closing Date Capital Adjustment**

The share purchase agreement contains a closing date capital adjustment mechanism, described below, that is designed to ensure that a specified level of tangible value will be contributed to the combined entity by both TD Waterhouse and Ameritrade upon the closing of the transaction. Pursuant to the closing date capital adjustment, Ameritrade may be required to pay TD additional consideration in the event the closing date net tangible book value, as defined below, of Ameritrade is below a specified level or the closing date net tangible book value of TD Waterhouse is above a specified level. Similarly, TD may be required to make capital contributions to Ameritrade in the event the closing date net tangible book value, as defined below, of TD Waterhouse is below a specified level or the closing date net tangible book value of Ameritrade is above a specified level.

Under the terms of the share purchase agreement, within 60 days after the closing date, Ameritrade is required to prepare and deliver to TD balance sheets dated as of the closing date for TD Waterhouse and the following subsidiaries of TD Waterhouse: National Investor Services Corp., TD Waterhouse Investor Services, Inc. and TD Waterhouse Capital Markets, Inc., or collectively, the business subsidiaries, on a consolidated basis (the

TD Waterhouse Closing Date Balance Sheet ) and for Ameritrade and its subsidiaries on a consolidated basis (the Ameritrade Closing Date Balance Sheet ). The balance sheets will be prepared in accordance with GAAP, subject to certain exceptions specified in the share purchase agreement. The TD Waterhouse Closing Date Balance Sheet will be accompanied by a statement showing the closing date net tangible book value, and targeted closing date net tangible book value, described below, of TD Waterhouse and the business subsidiaries, in each case calculated in accordance with the terms of the share purchase agreement. The Ameritrade Closing Date Balance Sheet will be accompanied

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by a statement showing the closing date net tangible book value and targeted closing date net tangible book value of Ameritrade and its subsidiaries, in each case calculated in accordance with the terms of the share purchase agreement. The share purchase agreement provides mechanisms to address any disputes between TD and Ameritrade relating to those closing date balance sheets and accompanying statements.

For purposes of the closing date capital adjustment, the

closing date net tangible book value, with respect to TD Waterhouse or Ameritrade, means the amount equal to (1) total stockholders equity *minus* (2) the sum of (a) goodwill (net of accumulated amortization) and (b) other intangible assets (net of accumulated amortization and, in the case of Ameritrade, the balance of the related deferred tax liability associated with the Datek client relationship intangible asset), in each case of TD Waterhouse and the business subsidiaries (on a consolidated basis) or Ameritrade and its consolidated subsidiaries (on a consolidated basis), as applicable, as of the closing date; and

targeted closing date net tangible book value means,

(1) in the case of TD Waterhouse, an amount equal to 6% of the aggregate debits (calculated for each registered broker-dealer as of any given date on the same basis as the amount set forth in Box 4470 of the Form X-17A-5 that is completed by such entity) as of the closing date, of the business subsidiaries *plus* the product of \$1.00 and the aggregate number of shares of Ameritrade common stock outstanding as of the record date of the special dividend and (2) in the case of Ameritrade, an amount equal to 6% of the aggregate debits (calculated for each registered broker-dealer as of any given date on the same basis as the amount set forth in Box 4470 of the Form X-17A-5 that is completed by such entity), as of the closing date, of each of its subsidiaries that is a registered broker-dealer.

If TD Waterhouse's closing date net tangible book value is less than its targeted closing date net tangible book value, TD will pay to Ameritrade as a contribution to capital an amount in cash equal to the excess of TD Waterhouse's targeted closing date net tangible book value over its closing date net tangible book value, plus an amount calculated as if interest accrued on the excess amount computed at the daily effective fed funds rate as published by the Federal Reserve for the period from the closing date to but excluding the date of such payment. If TD Waterhouse's closing date net tangible book value is greater than its targeted closing date net tangible book value, Ameritrade shall pay TD an amount in cash as additional consideration equal to the excess of TD Waterhouse's closing date net tangible book value over its targeted closing date net tangible book value, plus an amount calculated as if interest accrued on the excess amount computed at the fed funds rate for the period from the closing date to but excluding the date of such payment.

If Ameritrade's closing date net tangible book value is less than its targeted closing date net tangible book value, Ameritrade will pay to TD an amount in cash as additional consideration calculated in accordance with the following formula:

$$C = (A/B) \times A$$

where:

- A = the excess of Ameritrade's targeted closing date net tangible book value over its closing date net tangible book value;
- B = 1 minus TD's ownership percentage in TD Ameritrade immediately following the closing, taking into account only the shares issued to TD at the closing (expressed as a decimal); and
- C = cash payment from Ameritrade to TD.

Ameritrade will also pay TD an amount as if interest accrued on the cash payment amount at the fed funds rate for the period from the closing date to but excluding the date of such payment.

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If Ameritrade's closing date net tangible book value is greater than its targeted closing date net tangible book value, TD will pay to Ameritrade as a capital contribution an amount in cash calculated in accordance with the following formula:

$$C = (A/B) \times A$$

where:

- A = the excess of Ameritrade's closing date net tangible book value over its targeted closing date net tangible book value;
- B = 1 minus TD's ownership percentage in TD Ameritrade immediately following the closing, taking into account only the shares issued to TD at the closing (expressed as a decimal); and
- C = capital contribution from TD to Ameritrade.

TD will also pay Ameritrade an amount as if interest accrued on the capital contribution amount at the fed funds rate for the period from the closing date to but excluding the date of such payment.

Any amounts to be paid by Ameritrade or TD must be paid within 60 days of the final determination of those amounts.

**Closing**

Unless the parties agree otherwise, the acquisition of TD Waterhouse will close at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, 12 East 49th Street, New York, New York, on the third business day after the satisfaction or waiver of all closing conditions except for the conditions that, by their terms, are to be satisfied at the closing. See The Share Purchase Agreement Conditions to the Acquisition of TD Waterhouse beginning on page 85.

**Representations and Warranties**

The share purchase agreement contains representations and warranties made by TD to Ameritrade relating to a number of matters, including the following:

- corporate organization and similar matters of TD Waterhouse and the business subsidiaries;
- capital structure of TD Waterhouse and the business subsidiaries;
- ownership by TD Waterhouse of capital stock of the business subsidiaries;
- corporate authorization and validity of the share purchase agreement and the other ancillary agreements;
- approval by the board of directors of TD of the share purchase agreement, the stockholders agreement, the amended and restated registration rights agreement, the trademark license agreement, the money market deposit account agreement, the services agreement and the transactions contemplated thereby;
- absence of conflicts with organizational documents, laws or agreements as a result of entering into and consummating the transactions contemplated by the share purchase agreement;
- required consents and filings with governmental entities;
- the conformity with GAAP of TD Waterhouse's financial statements;
- accuracy of information supplied by TD expressly for inclusion in this proxy statement;
- the existence, validity and absence of defaults under material contracts;

the absence of certain material changes or events since October 31, 2004 or April 30, 2005, depending on the nature of the change or event;

title to real and personal property and the validity of and absence of defaults relating to leases for leased property;

ownership and validity of intellectual property rights;

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possession of permits, registrations and regulatory approvals required to conduct the businesses of TD Waterhouse and the business subsidiaries and compliance by TD Waterhouse and the business subsidiaries with law;

litigation, investigations and injunctions;

tax matters;

employees and employee benefit plans;

agreements with or directives from regulatory agencies;

the absence of undisclosed liabilities;

environmental matters;

transactions with affiliates;

broker's and finder's fees related to the acquisition of TD Waterhouse;

insurance coverage;

adequacy of accounting controls;

interest rate risk management instruments; and

labor and employment matters.

The share purchase agreement also contains representations and warranties by Ameritrade to TD relating to a number of matters, including the following:

corporate or other organization and similar matters of Ameritrade and its subsidiaries;

capital structure of Ameritrade and its subsidiaries;

ownership by Ameritrade of capital stock of Ameritrade's subsidiaries;

corporate authorization and validity of the share purchase agreement and the other ancillary agreements;

approval by the Ameritrade board of directors of the share purchase agreement, the stockholders agreement, the trademark license agreement, the money market deposit account agreement, the services agreement, the amendment and restatement of our certificate of incorporation and the amended and restated bylaws of Ameritrade as required by the share purchase agreement (the Post-Transaction Bylaws) and the transactions contemplated thereby;

the inapplicability of certain state takeover statutes to Ameritrade, the share purchase agreement, the acquisition of TD Waterhouse or the stockholders agreement;

absence of conflicts with organizational documents, laws or agreements as a result of entering into and consummating the transactions contemplated by the share purchase agreement;

required consents and filings with governmental entities;

the conformity with U.S. GAAP and SEC requirements of Ameritrade's financial statements filed with the SEC;

proper filing of documents with the SEC and the accuracy of information contained in those documents and compliance with the Sarbanes-Oxley Act;

accuracy of information supplied by Ameritrade expressly for inclusion in this proxy statement;

the existence, validity and absence of defaults under material contracts;

the absence of certain material changes or events since the date of Ameritrade's last audited financial statements or March 25, 2005, depending on the nature of the change or event;

title to real and personal property and the validity of and absence of defaults relating to, leases for leased property;

ownership and validity of intellectual property rights;

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possession of permits, registrations and regulatory approvals required to conduct the business of Ameritrade and its subsidiaries and compliance by Ameritrade and its subsidiaries with law;

litigation, investigations and injunctions;

tax matters;

employees and employee benefit plans;

the absence of agreements with or directives from regulatory agencies;

the absence of undisclosed liabilities;

environmental matters;

transactions with affiliates;

broker's and finder's fees related to the acquisition of TD Waterhouse;

the required vote to approve the acquisition of TD Waterhouse and the amendment and restatement of our certificate of incorporation;

insurance coverage;

adequacy of accounting controls;

absence of interest rate risk management instruments; and

labor and employment matters.

Some of these representations and warranties are subject to specified exceptions and qualifications. In addition, some of these representations and warranties are qualified as to materiality or material adverse effect. For purposes of the share purchase agreement, a material adverse effect with respect to any entity, means a material adverse effect:

on the condition (financial or otherwise), properties, assets, liabilities, businesses or results of operations of such entity and its subsidiaries taken as a whole (or, in the case of TD Waterhouse, of TD Waterhouse and the business subsidiaries taken as a whole, after giving effect to the Reorganization), but does not include any such effect to the extent resulting from or attributable to:

any change after the date of the share purchase agreement in laws, rules or regulations or interpretations thereof by courts or governmental authorities, or in GAAP (or, in the case of TD Waterhouse, Canadian GAAP) or regulatory accounting principles, in any such case applicable generally to U.S. self-directed retail discount securities brokers,

any changes after the date of the share purchase agreement in general economic, monetary or securities market conditions (including changes in interest rates and market price and trading volume fluctuations),

the announcement of the transactions contemplated by the share purchase agreement,

any outbreak of major hostilities in which the U.S. is involved or any act of terrorism within the U.S. or directed against its facilities or citizens wherever located, or

any action or omission by TD, Ameritrade or any subsidiary of any of them taken with the prior written consent of the other parties to the share purchase agreement or as required by the terms of the share purchase agreement, or

on the ability of such entity (or, in the case of TD Waterhouse, on the ability of TD) to perform its obligations under the share purchase agreement or the related ancillary agreements, and to consummate the transactions contemplated by the share purchase agreement and the related ancillary agreements on a timely basis.

The representations and warranties in the share purchase agreement generally will survive for one year following the closing (other than with respect to tax matters which will survive until 30 days past the expiration of the applicable statute of limitations) at which date they will terminate; and, as described

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below under Effect of Termination, if the share purchase agreement is validly terminated there will be no liability under the representations and warranties of the parties (other than with respect to broker's and finder's fees related to the Ameritrade Stock Issuances), unless a party willfully breached the share purchase agreement.

**Covenants and Agreements**

*Conduct of Business of TD Waterhouse Prior to Closing.* TD has agreed that, during the period from the date of the share purchase agreement to the closing, it will cause TD Waterhouse and each business subsidiary to (1) carry on their respective businesses in the usual, regular and ordinary course consistent with past practice and in compliance with all applicable laws and regulations, (2) pay its debts and taxes when due and pay or perform other material obligations when due and (3) use all reasonable efforts to preserve intact the present business organizations of TD Waterhouse and the business subsidiaries, maintain the rights and franchises of, and preserve the relationships with clients, suppliers and others having business dealings with, TD Waterhouse and the business subsidiaries to the end that their goodwill and ongoing businesses shall not be impaired in any material respect at the closing. TD has further agreed that, without limiting the generality of the foregoing, during the period from the date of the share purchase agreement to the closing, except as expressly contemplated or permitted by the share purchase agreement, (a) without the prior written consent of Ameritrade, (i) TD will not permit TD Waterhouse or any of the business subsidiaries to sell any of its seats on the New York Stock Exchange if such sale would result in TD Waterhouse and the business subsidiaries, collectively, not owning any seats on the New York Stock Exchange, and (ii) if at any time TD Waterhouse and the business subsidiaries, collectively, own only one seat on the New York Stock Exchange, TD will not permit TD Waterhouse or any of the business subsidiaries to lease such seat and (b) TD will not permit TD Waterhouse or any business subsidiary to, without the prior written consent of Ameritrade, such consent not to be unreasonably withheld, conditioned or delayed:

except as contemplated by the Reorganization, pay any dividends or other distributions on its capital stock, subject to certain exceptions relating to dividends paid by subsidiaries of TD Waterhouse to TD Waterhouse and dividends paid to TD by TD Waterhouse;

except as contemplated by the Reorganization, adjust, split, combine or reclassify any of its capital stock, or repurchase, redeem or otherwise acquire any of its capital stock or the capital stock of any business subsidiary;

issue additional shares of its capital stock, or securities convertible into its capital stock, except:  
as contemplated by the Reorganization; or

issuances by a wholly owned subsidiary of TD Waterhouse of its capital stock to TD Waterhouse;  
except as contemplated by the Reorganization, amend or propose to amend its certificate of incorporation or its bylaws or other organizational documents;

except as contemplated by the Reorganization, enter into a plan of consolidation, merger, share exchange, reorganization or complete or partial liquidation with any person (other than consolidations, mergers or reorganizations solely among wholly owned subsidiaries (other than with respect to a business subsidiary) of TD Waterhouse), or a letter of intent or agreement in principle with respect to a plan of consolidation, merger, share exchange or reorganization or adopt a plan of complete or partial liquidation;

enter into new lines of business or materially change its brokerage policies or practices;

incur or commit to any capital expenditures or any obligations or liabilities in connection therewith other than capital expenditures and related obligations or liabilities incurred or committed to in the ordinary course of business consistent with past practice;

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except as contemplated by the Reorganization, make any acquisition of or investment in any other person or of assets of another person, except for:

acquisitions of securities for the account of or for sale to clients in the ordinary course of business; or

foreclosures of securities pledged by clients in the ordinary course of business and other similar acquisitions in connection with securing or collecting debts previously contracted in the ordinary course of business;

sell, lease, encumber or otherwise dispose of any of its assets (including capital stock of subsidiaries of TD Waterhouse), which are material, individually or in the aggregate, to TD Waterhouse, other than:

internal reorganizations, liquidations or consolidations involving existing subsidiaries (other than a business subsidiary) of TD Waterhouse;

as contemplated by the Reorganization;

other activities in the ordinary course of business consistent with past practice; or

in connection with the incurrence of indebtedness (to the extent described in the following bullet point); incur any long-term indebtedness for borrowed money or guarantee any such long-term indebtedness or issue or sell any long-term debt securities or warrants or rights to acquire any long-term debt securities of TD Waterhouse or any of the business subsidiaries or guarantee any long-term debt securities of others, other than:

in connection with the payment of permitted dividends under the share purchase agreement;

borrowings of any business subsidiary from TD Waterhouse or another business subsidiary;

indebtedness in the ordinary course of business consistent with past practice; or

renewals, replacements or extensions of existing indebtedness;

intentionally take any action that would, or would reasonably be expected to, result in any of the conditions to the completion of the acquisition of TD Waterhouse not to be satisfied;

make any changes in its accounting methods, practices or policies, except as required under applicable law, regulation or GAAP or Canadian GAAP, in each case as concurred with by TD's independent public accountants;

subject to some exceptions,

adopt, amend or terminate any TD Waterhouse employee benefit plan;

increase in any material manner the compensation or fringe benefits of any director, officer or employee of TD Waterhouse or the business subsidiaries or pay or grant any benefit not required by any arrangement as in effect as of June 22, 2005;

enter into or renew any agreement providing for the payment to any director or officer of TD Waterhouse or any of the business subsidiaries of compensation or benefits contingent upon the occurrence of any of the transactions contemplated by the share purchase agreement;

loan or advance any money or other property to any present or former director or officer of TD Waterhouse or any of the business subsidiaries other than pursuant to any plan or arrangement as in effect as of June 22, 2005; or

grant any equity-based compensation;

except as contemplated by the Reorganization, and subject to certain exceptions, enter into, amend, renew or terminate any material contract;

except as contemplated by the Reorganization, engage in any material transaction or incur any material obligation except in the ordinary course of business consistent with past practice;

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pay or settle any obligations, including taking any action to settle or compromise any litigation, subject to certain exceptions, in each case:

relating to the share purchase agreement or the transactions contemplated by the share purchase agreement; or

that is otherwise material to TD Waterhouse and the business subsidiaries, other than, the payment or settlement, compromise or satisfaction, in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the TD Waterhouse financial statements delivered to Ameritrade, or incurred since April 30, 2005 in the ordinary course of business consistent with past practice;

make any material changes to its method of tax accounting (unless required by applicable law), file any material amended return or settle or compromise any material tax liability;

open any new branches, offices or facilities or relocate or close any existing offices or facilities, or file any application with any governmental authority to do any of the foregoing;

change in any material respect the pricing or terms of its client services (except in response to changes in competitive conditions or prevailing market practices);

enter into any agreement to purchase or sell any interest in real property, grant any security interest in any real property, enter into any lease, sublease or other occupancy agreement with respect to any real property, other than in the ordinary course of business consistent with past practice or materially alter, violate or terminate any of the terms of any lease; or

agree to, or make any commitment to, take any of these restricted actions.

*Conduct of Business of Ameritrade Prior to Closing.* Ameritrade has agreed that, during the period from the date of the share purchase agreement to the closing, Ameritrade will and will cause each of its subsidiaries to (1) carry on its business in the usual, regular and ordinary course consistent with past practice and in compliance with all applicable laws and regulations, (2) pay its debts and taxes when due and pay or perform other material obligations when due and (3) use all reasonable efforts to preserve intact its present business organizations, maintain its rights and franchises and preserve its relationships with clients, suppliers and others having business dealings with them to the end that their goodwill and ongoing businesses will not be impaired in any material respect at the closing. Ameritrade has further agreed that, except as expressly contemplated or permitted by the share purchase agreement, during the period from the date of the share purchase agreement to the closing, Ameritrade will not, and will not permit any of its subsidiaries to, without the prior written consent of TD, such consent not to be unreasonably withheld, conditioned or delayed:

pay any dividends or other distributions on its capital stock, except with respect to (1) the payment of a one-time special dividend in an amount not to exceed \$6.00 per share, and (2) dividends by a wholly owned subsidiary (other than Ameritrade Canada or any of its subsidiaries) to Ameritrade;

adjust, split, combine or reclassify any of its capital stock, or subject to limited exceptions, repurchase, redeem or otherwise acquire any of its capital stock or the capital stock of any subsidiary;

issue additional shares of its capital stock, or securities convertible into its capital stock, except:

the issuance of Ameritrade common stock pursuant to the exercise of stock options outstanding on June 22, 2005;

issuances by a wholly owned subsidiary of Ameritrade of its capital stock to Ameritrade; or

the grant to employees, consultants and directors of Ameritrade, in the ordinary course of business and consistent with past practice, of options to acquire shares of Ameritrade common stock not to exceed options to purchase 750,000 shares of Ameritrade common stock in the aggregate;  
use its discretion to accelerate the vesting of any stock options outstanding as of June 22, 2005 or any other rights, warrants or other grant of equity under any Ameritrade benefit plan;

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amend or propose to amend its certificate of incorporation or its bylaws or other organizational documents, other than the amendments specifically contemplated by the share purchase agreement;

enter into a plan of consolidation, merger, share exchange, reorganization or complete or partial liquidation with any person (other than consolidations, mergers or reorganizations solely among wholly owned subsidiaries of Ameritrade), or a letter of intent or agreement in principle with respect to a plan of consolidation, merger, share exchange, reorganization or complete or partial liquidation;

enter into new lines of business or materially change its brokerage policies or practices;

incur or commit to any capital expenditures or any obligations or liabilities in connection therewith other than capital expenditures and related obligations or liabilities incurred or committed to in the ordinary course of business consistent with past practice;

make any acquisition of or investment in any other person or of assets of another person, except for:  
acquisitions of securities for the account of or for sale to clients in the ordinary course of business; or

foreclosures of securities pledged by clients in the ordinary course of business and other similar acquisitions in connection with securing or collecting debts previously contracted in the ordinary course of business;  
sell, lease, encumber or otherwise dispose of any of its assets (including capital stock of subsidiaries), which are material, individually or in the aggregate, to Ameritrade, other than:

internal reorganizations, liquidations or consolidations involving existing subsidiaries of Ameritrade;

other activities in the ordinary course of business consistent with past practice; and

in connection with the incurrence of indebtedness (to the extent described in the following bullet point);  
incur any long-term indebtedness for borrowed money or guarantee any such long-term indebtedness or issue or sell any long-term debt securities or warrants or rights to acquire any long-term debt securities of Ameritrade or any of its subsidiaries or guarantee any long-term debt securities of others, other than:

indebtedness of any subsidiary of Ameritrade to Ameritrade or another subsidiary of Ameritrade;

borrowings in the ordinary course of business consistent with past practice;

renewals, replacements or extensions of existing indebtedness; and

indebtedness incurred for the sole purpose of funding the payment of the special dividend, in an amount not in excess of \$5.00 per outstanding share of Ameritrade common stock;  
intentionally take any action that would, or would reasonably be expected to, result in any of the conditions to the completion of the acquisition of TD Waterhouse not to be satisfied;

make any changes in its accounting methods, practices or policies, except as required under applicable law, regulation or GAAP, in each case as concurred with by Ameritrade's independent public accountants;

subject to some exceptions,

adopt, amend or terminate any Ameritrade employee benefit plan;

increase in any material manner the compensation or fringe benefits of any director, officer or employee of Ameritrade or any of its subsidiaries or pay or grant any benefit not required by any arrangement as in effect as of June 22, 2005;

enter into or renew any agreement providing for the payment to any director or officer of Ameritrade or any of its subsidiaries of compensation or benefits contingent upon the occurrence of any of the transactions contemplated by the share purchase agreement;

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loan or advance any money or other property to any present or former director or officer of Ameritrade or any of its subsidiaries other than pursuant to any plan or arrangement as in effect as of June 22, 2005; or

grant any equity-based compensation;  
subject to certain exceptions, enter into, amend, renew or terminate any material contract;

engage in any material transaction or incur any material obligation except in the ordinary course of business consistent with past practice;

pay or settle any obligations, including taking any action to settle or compromise any litigation, in each case:  
relating to the share purchase agreement or the transactions contemplated by the share purchase agreement; or

that is otherwise material to Ameritrade or any of its subsidiaries, other than, the payment or settlement, compromise or satisfaction, in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the Ameritrade financial statements delivered to TD, or incurred since September 24, 2004 in the ordinary course of business consistent with past practice;

make any material changes to its method of tax accounting (unless required by applicable law), file any material amended return or settle or compromise any material tax liability;

open any new branches, offices or facilities or relocate or close any existing offices or facilities, or file any application with any governmental authority to do any of the foregoing;

change in any material respect the pricing or terms of its client services (except in response to changes in competitive conditions or prevailing market practices);

enter into any agreement to purchase or sell any interest in real property, grant any security interest in any real property, enter into any lease, sublease or other occupancy agreement with respect to any real property, other than in the ordinary course of business consistent with past practice or materially alter, violate or terminate any of the terms of any lease; or

agree to, or make any commitment to, take any of these restricted actions.

*Ameritrade Stockholders Meeting and Duty to Recommend.* The share purchase agreement requires Ameritrade to call and hold a special meeting of its stockholders to approve the Ameritrade Stock Issuance and the amendment and restatement of our certificate of incorporation. The Ameritrade board of directors has agreed to recommend that Ameritrade's stockholders vote in favor of approval of the Ameritrade Stock Issuance and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, and to not publicly withdraw, modify or qualify in any manner adverse to TD such recommendation (which we refer to in this proxy statement as a change in Ameritrade recommendation), except that Ameritrade's board of directors may effect a change in Ameritrade recommendation if and only to the extent that:

Ameritrade has not materially breached its obligations to (1) promptly (but in no event more than two business days) notify TD following the receipt of any acquisition proposal, or of any inquiry which Ameritrade concludes in good faith has a reasonable possibility of leading to an acquisition proposal, advise TD of the material terms thereof (including the identity of the person making such acquisition proposal or inquiry in respect thereof), (2) keep TD apprised of any related developments and (3) furnish TD with copies of related documents as described in more detail under **No Solicitation** ;

The Ameritrade board of directors, after consultation with outside counsel and acting upon the recommendation of the special committee of the Ameritrade board of directors, determines in good faith that the failure to effect a

change in Ameritrade recommendation would be inconsistent with the board's fiduciary duties under applicable law; and

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Ameritrade has received, on or after June 22, 2005, an unsolicited bona fide written acquisition proposal (as described below) from a third party which its board of directors concludes in good faith constitutes a superior proposal (as described below), after

giving at least five business days notice to TD of its intention to effect a change in Ameritrade recommendation, specifying the material terms and conditions of the superior proposal and furnishing TD a copy of the relevant proposed transaction agreement, if any, and all other material documents relating to such superior proposal; and

negotiating in good faith with TD during this period of not less than five business days to make such adjustments in the terms and conditions of the share purchase agreement so that the acquisition proposal ceases to be a superior proposal after giving effect to any adjustments which may be offered by TD in connection with these negotiations.

For purposes of the share purchase agreement,

an acquisition proposal means a proposal, offer or transaction (other than a proposal or offer made by TD or its affiliates) relating to, or to effect, (1) a merger, reorganization, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving Ameritrade or any of its subsidiaries, other than any such merger, share exchange, consolidation or other business combination resulting in or involving (a) the purchase or other acquisition by, or the sale or issuance to, any person of securities representing (or convertible into or exchangeable for securities that would represent) less than 15% of the total voting power of Ameritrade or any of its subsidiaries or (b) the purchase or sale of assets representing less than 15% of the aggregate fair market value of the consolidated assets (including stock of Ameritrade's subsidiaries) of Ameritrade and its subsidiaries, taken as a whole or (2) any purchase or sale of assets representing 15% or more of the aggregate fair market value of the consolidated assets (including stock of Ameritrade's subsidiaries) of Ameritrade and its subsidiaries, taken as a whole, or (3) any purchase or sale (by merger or otherwise) of, or tender or exchange offer for, securities of Ameritrade that, if consummated, would result in any person beneficially owning securities representing 15% or more of the total voting power of Ameritrade or any of its significant subsidiaries (as defined in Rule 1-02 of Regulation S-X); and

a superior proposal means a bona fide written acquisition proposal which the Ameritrade board of directors (acting upon the recommendation of the special committee) concludes in good faith, after consultation with its outside financial and legal advisors, and taking into account all legal, financial, regulatory and other aspects of the proposal and the person making the proposal (including any break-up fees, expense reimbursement provisions and conditions to consummation), (1) is more favorable to the stockholders of Ameritrade, from a financial point of view, than the transactions contemplated by the share purchase agreement (taking into account the Ameritrade board of directors' good faith assessment of the prospective synergies and cost savings anticipated to be realized from and following the acquisition of TD Waterhouse and the other transactions contemplated thereby) and (2) is fully financed or reasonably capable of being fully financed and otherwise reasonably capable of being completed on the terms proposed; provided that for purposes of this definition of superior proposal, the term acquisition proposal shall have the meaning assigned to such term above, except that in the definition of acquisition proposal above, the reference to 15% in clauses (1)(b) and (2) shall be deemed to be a reference to 70%, the reference to 15% in clauses (1)(a) and (3) shall be deemed to be a reference to 40%, and to qualify as an acquisition proposal under clauses (1)(a) or (3) a transaction must involve voting securities only of Ameritrade and not of its subsidiaries or significant subsidiaries, as the case may be (other than indirectly through the acquisition of voting securities of Ameritrade) (it being understood that an acquisition proposal need only meet any of clauses (1), (2) or (3) of the definition thereof (as modified by the foregoing proviso) in order to be eligible to be determined to be a superior proposal as provided above).

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*No Solicitation.* The share purchase agreement precludes Ameritrade and its subsidiaries, and requires Ameritrade to use all reasonable efforts to preclude its and its subsidiaries' respective directors, officers, employees, agents and representatives from, directly or indirectly:

initiating, soliciting or knowingly encouraging or facilitating any inquiries or the making of any proposals or offers from any person relating to, or a transaction to effect, an acquisition proposal;

having any discussions with, or providing any confidential information or data to, any person relating to an acquisition proposal, or engaging in any negotiations concerning an acquisition proposal, or knowingly facilitating any effort or attempt to make or implement an acquisition proposal;

approving or recommending, or publicly proposing to approve or recommend, any acquisition proposal;

executing or entering into, or approving or recommending, or publicly proposing to approve or recommend, any letter of intent, agreement in principle, merger agreement, asset purchase or share exchange agreement, option agreement or other similar agreement related to any acquisition proposal;

granting any approval pursuant to Section 203(a)(1) or Section or 203(a)(3) of the Delaware General Corporation Law removing the restrictions on business combinations contained therein; or

publicly proposing or agreeing to do any of the foregoing.

However, if Ameritrade receives an unsolicited bona fide acquisition proposal prior to obtaining the required approval of the stockholders of Ameritrade of the Ameritrade Stock Issuance and the amendment and restatement of our certificate of incorporation, Ameritrade may participate in negotiations or discussions with, or provide confidential information or data to, the person making that acquisition proposal if:

Ameritrade's board of directors (acting upon the recommendation of the special committee) concludes in good faith that the acquisition proposal constitutes or is reasonably likely to result in a superior proposal;

Ameritrade's board of directors (acting upon the recommendation of the special committee), after consultation with outside counsel, determines in good faith that the failure to take those actions would be inconsistent with the board's fiduciary duties under applicable law;

prior to providing any confidential information to the person making the inquiry or proposal, Ameritrade enters into a confidentiality agreement with the person making the inquiry or proposal having terms that are no less favorable to Ameritrade than those in the confidentiality agreement between TD and Ameritrade; and

Ameritrade provides TD with a copy of any confidential information or data provided to such person making the inquiry or proposal to the extent not previously provided or made available to TD.

Ameritrade has agreed to, and to cause its subsidiaries to, and will use all reasonable efforts to cause its and their respective directors, officers, employees, agents and representatives to, immediately cease, from and after June 22, 2005, and cause to be terminated, any activities, discussions or negotiations with any persons other than TD with respect to any acquisition proposal and to use all reasonable efforts to enforce any standstill, confidentiality or similar agreement relating to any acquisition proposal, including by requiring other parties to promptly return or destroy any confidential information previously furnished and by using all reasonable efforts if reasonably requested by TD to seek injunctions or other equitable remedies to prevent or restrain any breaches of such agreements and to enforce specifically the terms and provisions of such agreements in a court of competent jurisdiction.

Ameritrade has also agreed to promptly (but in no event more than two business days) following the receipt of any acquisition proposal, or of any inquiry which Ameritrade concludes in good faith has a reasonable probability of leading to an acquisition proposal, advise TD of the material terms of the proposal, including the identity of the person

making the proposal, keep TD apprised of any related

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developments, discussions and negotiations on a current basis (and, in any event, within 48 hours of such developments, discussions or negotiations), and furnish TD with a copy of any proposed transaction agreements and related documents with or from the person making such acquisition proposal or inquiry in respect thereof promptly after the receipt by Ameritrade of such agreements. Ameritrade has further agreed to provide TD with at least 48 hours prior notice (or such lesser prior notice as is provided to the Ameritrade board of directors) of any meeting of the Ameritrade board of directors at which meeting the board of directors is reasonably expected to consider an acquisition proposal.

*All Reasonable Efforts Covenant.* Ameritrade and TD have agreed to use all reasonable efforts to take, or cause to be taken all actions necessary, to comply with all legal requirements with respect to the transactions contemplated by the share purchase agreement as promptly as practicable and to obtain (and to cooperate with the other party to obtain) any governmental or third-party approvals required in connection with the acquisition of TD Waterhouse and the other transactions contemplated by the share purchase agreement. However, except as described in the following paragraph, neither Ameritrade nor TD is required to dispose or hold separate any material assets or categories of assets of Ameritrade or TD Waterhouse, accept the imposition of any material limitation or restriction on the ability of Ameritrade or TD Waterhouse to freely conduct their business or own such assets, hold separate any of the shares of TD Waterhouse common stock or accept any limitation on the ability of Ameritrade to exercise full rights of ownership of the shares of TD Waterhouse common stock.

In the event that the Commissioner of Competition (Canada) applies, threatens in writing to apply, or advises TD or Ameritrade that it proposes to apply to the Competition Tribunal (Canada) for an order (including an injunction) with respect to the transactions contemplated in the share purchase agreement, TD and Ameritrade have agreed to negotiate in good faith with each other, and confer with the Commissioner of Competition (Canada) to arrange for the consummation of the transactions contemplated by the share purchase agreement subject to the holding separate of Ameritrade Canada by the parties following the closing (and prior to consummation of the transactions contemplated by the Canadian purchase agreement). If the parties are unable to reach agreement with the Commissioner of Competition (Canada) regarding such a hold separate transaction, then Ameritrade has agreed to dispose of Ameritrade Canada prior to the closing on commercially reasonable terms.

*Employee Benefit Plans.* Ameritrade and TD have agreed that, during the period prior to the closing, they will cooperate to ensure the continuity of their workforces and that in particular TD Waterhouse will not terminate, prior to the closing, any of its employees for any reason other than unsatisfactory performance or misconduct. In addition, Ameritrade and TD have agreed that during a specified transition period beginning on the closing (and ending on the later of the first anniversary of the closing or the date thirty days after the clearing conversion of all TD Waterhouse client accounts), Ameritrade will provide each former TD Waterhouse employee retained by Ameritrade through the transition period or any portion thereof with (1) base salary or wage and commission levels and bonus compensation at least equal to that provided by TD Waterhouse prior to the closing, and (2) other employee benefits, including defined contribution pension benefits and equity based compensation, that are no less favorable in the aggregate than such benefits provided by Ameritrade after the closing to similarly situated Ameritrade employees.

Ameritrade has further agreed to assume all liabilities and obligations under certain termination protection agreements entered into between TD, TD Waterhouse and certain key TD Waterhouse employees which provide for severance and additional benefits in the event such employees are terminated after the closing. TD Waterhouse has agreed to terminate, prior to the closing, its formal severance plan and Ameritrade has agreed to adopt and maintain, for the transition period, a severance plan or arrangement, which will provide levels of severance or termination pay and other termination benefits, that are no less favorable than that provided by TD Waterhouse prior to the closing. In addition, during the transition period, any former TD Waterhouse employee that is terminated will be entitled to a pro-rata portion of any applicable TD Waterhouse quarterly or annual bonus then in effect.

We expect that Mr. Moglia will continue to serve as Chief Executive Officer of TD Ameritrade, that J. Joe Ricketts will continue to serve as Chairman of TD Ameritrade and that W. Edmund Clark will serve as Vice Chairman of TD Ameritrade. Ameritrade is currently negotiating a new employment



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agreement with Mr. Moglia with respect to his continued employment. In addition, Ameritrade may negotiate and enter into, prior to the closing, and after consultation with TD, new or amended employment agreements with other executive officers.

Ameritrade has also agreed to give each former TD Waterhouse employee full credit for service with TD and TD Waterhouse for purposes of eligibility, vesting, benefit entitlement and accrual under the employee benefit plans of Ameritrade after the closing. Ameritrade has also agreed to (1) waive all pre-existing conditions, exclusions and waiting periods with respect to participation and coverage requirements under any welfare benefit plan maintained by Ameritrade after the closing, to the extent such former TD Waterhouse employees were not subject to such pre-existing condition, exclusion and waiting period under the comparable TD or TD Waterhouse benefit plan, and (2) provide each former TD Waterhouse employee with credit for any co-payments and deductibles paid prior to the closing in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans that such former TD Waterhouse employees are eligible to participate in after the closing. Ameritrade and TD have agreed to take all actions which are deemed necessary prior to the closing to adopt amendments to each of their respective health care plans to provide that terminated employees who are receiving payments under a severance arrangement sponsored by Ameritrade or TD Waterhouse shall remain eligible for health care benefits during the payment period of such severance benefits.

TD has agreed to retain and continue to expense and administer all outstanding options to acquire TD stock that TD Waterhouse employees have been granted prior to the closing. However, with respect to restricted stock units which are to be settled in cash and which were granted by TD and TD Waterhouse to TD Waterhouse employees, TD has agreed to transfer the vested liability with respect to such restricted stock units, and a corresponding offsetting hedge, to Ameritrade at closing so that Ameritrade will become responsible, up to a specified amount, for the liability associated with the unvested restricted stock units. TD has agreed to continue to administer the restricted stock unit program at its own expense after the closing.

Ameritrade may take such actions as it deems necessary to adjust all outstanding Ameritrade equity compensation awards held by any Ameritrade employee or director in order to ensure that all such equity awards maintain their intrinsic value, as determined prior to the payment of the special dividend, to account for the payment of such special dividend.

All then-active TD Waterhouse employees will be fully vested in their account balances under the TD Waterhouse 401(k)/profit sharing plan as of the closing date. In the event that the TD Waterhouse 401(k)/profit sharing plan is terminated or merged into the Ameritrade 401(k) plan, all former TD Waterhouse employees will be eligible to participate in the Ameritrade 401(k) plan on the first entry date after having satisfied the eligibility requirements under the Ameritrade 401(k) plan.

Ameritrade has also agreed to pay to TD \$300,000 in exchange for TD retaining all liability and responsibility for the administration and provision of retiree medical benefits to any former TD Waterhouse employee who may be entitled to these benefits.

TD has agreed to be responsible for all costs, liabilities and expenses with respect to employee and employee benefits costs of TD Waterhouse employees who work at TD Waterhouse's Canadian call center. However, Ameritrade has agreed to reimburse TD for any costs incurred by TD resulting from the termination pay, severance pay or the employer portion of any payments required for continuation of health benefit coverage to any such terminated Canadian call center employee during the specified transition period after the closing.

*Intercompany Matters.* TD has agreed to take such action as is necessary to ensure that, subject to certain exceptions, any arrangements, or transactions between TD or any of its subsidiaries (other than TD Waterhouse and the business subsidiaries), on the one hand, and TD Waterhouse and the business subsidiaries, on the other hand, may be terminated by Ameritrade upon the closing on not more than 30 days' notice and without the payment of any financial penalty or fee or obligation of further reimbursement.

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*Financing and Other Actions for Special Dividend.* Ameritrade has agreed to use all reasonable efforts to arrange for adequate and appropriate financing facilities and other debt funding sources to provide the cash necessary to pay that portion of the special dividend not funded by other Ameritrade available excess cash or by TD's contribution of cash in an amount at least equal to the product of \$1.00 multiplied by the number of outstanding shares of Ameritrade common stock, in each case on terms reasonably acceptable to TD. Ameritrade will use all reasonable efforts to (1) have such committed financing facilities and other debt funding sources available for drawdown by no later than the closing date, (2) satisfy all conditions to such drawdown on a timely basis, and (3) take all other corporate actions as may be necessary under applicable law to pay the special dividend. Prior to the closing date, the Ameritrade board of directors will declare the special dividend if sufficient funds are available and such declaration and payment is permitted by applicable law.

*Fees and Expenses.* Except as otherwise expressly provided in the share purchase agreement, Ameritrade and TD have agreed that all costs and expenses incurred in connection with the share purchase agreement and the transaction contemplated by the share purchase agreement shall be paid by the party incurring such expense.

*Notification of Certain Matters.* Ameritrade and TD have each agreed to give prompt notice to the other of any representation or warranty made by it in the share purchase agreement becoming untrue or inaccurate, or any failure to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under the share purchase agreement, in each case where the respective party could not satisfy the closing conditions with respect to representations and warranties or performance of obligations.

*Governance of Ameritrade.* Ameritrade has agreed, subject to receipt of the required vote of the stockholders of Ameritrade, to take all action necessary to (1) cause the amended and restated certificate of incorporation of Ameritrade to be duly executed, acknowledged and filed with the Secretary of State of the State of Delaware effective as of the closing, (2) cause the persons designated in accordance with the stockholders agreement to constitute the full board of directors of Ameritrade as of the closing and to be assigned to the applicable class of directors in the manner provided in the stockholders agreement (see *Certain Agreements Related to the Acquisition of TD Waterhouse Stockholders Agreement* beginning on page 91), (3) cause J. Joe Ricketts to be appointed as Chairman, and W. Edmund Clark to be appointed as Vice Chairman, of the Ameritrade board of directors, provided that such individuals are designated as directors in accordance with clause (2), (4) cause Joseph H. Moglia to continue as Chief Executive Officer of Ameritrade, provided that Mr. Moglia has not previously terminated his employment with Ameritrade and (5) cause the bylaws of Ameritrade as of the closing to be amended and restated in the form of the Post-Transaction Bylaws.

*Reorganization.* TD shall use all reasonable efforts to complete the Reorganization prior to or concurrent with the effective time of the closing. TD has further agreed to prepare, and deliver to Ameritrade by September 20, 2005 a written reorganization report setting forth TD's calculation, as of the effective date (or dates) of the Reorganization, of (x) the fair market value of TD Waterhouse Bank, N.A., or TD Waterhouse Bank, CTUSA, Inc., TD Waterhouse Canadian Call Center Inc., TD Waterhouse U.S. Holding Company, Inc., TD Waterhouse Sub Limited, TD Waterhouse Investor Services (Hong Kong) Inc., TD Waterhouse Canada Inc., 1489299 Ontario Limited, BondDesk Canada ULC, Drewmark, Inc., R. J. Thompson Holdings, Inc., InfoComp International, Inc. and TD Waterhouse European Acquisition Corporation, collectively, the excluded subsidiaries, and any other assets transferred to TD, (y) TD Waterhouse's basis in the excluded subsidiaries and the other assets transferred to TD, and (z) an estimate of the anticipated tax liability (including withholding taxes) attributable to the Reorganization. TD has engaged KPMG LLP to prepare a valuation of the excluded subsidiaries and the other assets transferred to TD and has agreed that the tax calculations contained in the reorganization report shall be based upon, and consistent with in all respects, the information contained in such valuation.

*Completion of Ameritrade Canada Transaction.* In the event the Canadian purchase agreement is terminated prior to the consummation of the sale of Ameritrade Canada to TD, then within one year of

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the closing date of the Ameritrade Stock Issuance, Ameritrade has agreed to use best efforts to dispose of Ameritrade Canada to a person that is not an affiliate of Ameritrade.

*Tax Matters.* TD and Ameritrade have agreed to reasonably cooperate in preparing and filing all returns of TD Waterhouse and the business subsidiaries for all taxable periods ending on or before, or which include periods prior to, the closing date, including maintaining and making available to each other all records necessary in connection with taxes relating to TD Waterhouse and the business subsidiaries and in resolving all disputes and audits with respect to taxes relating to TD Waterhouse and the business subsidiaries.

*Sweep Account Services.* Within 60 days after the date of the share purchase agreement, TD has agreed to submit to the NYSE and the NASD for their review the money market deposit account agreement with respect to the TD Waterhouse FDIC-insured sweep product to be provided following the closing.

*No Solicitations by TD.* Provided that Ameritrade has not effected a change in Ameritrade's recommendation, TD and its affiliates have agreed not to solicit or engage in (other than with Ameritrade) any discussions, and will immediately cease any activities, discussions or negotiations with any persons other than Ameritrade, regarding a possible sale of TD Waterhouse and the business subsidiaries or other type of similar transaction, business combination, recapitalization, liquidation, dissolution or similar transaction involving TD Waterhouse or any of the business subsidiaries.

*TD Waterhouse 2004 Audited Financials.* TD has agreed to use all reasonable efforts to cause to be prepared and delivered to Ameritrade, as promptly as practicable and in no event later than the 60th day following the date of the share purchase agreement, the audited consolidated balance sheet, statement of income, statement of retained earnings and statement of cash flows for TD Waterhouse as of October 31, 2004.

*Outsourcing Agreement; Website Matters.* TD and Ameritrade have agreed to commence good faith negotiations, promptly following the date of the share purchase agreement, regarding (1) the terms of a formal outsourcing arrangement to be entered into by TD Waterhouse Investor Services, Inc. and TD Waterhouse Bank, N.A. pursuant to which, as of the closing date or a later date agreed to by TD and Ameritrade, TD Waterhouse Investor Services, Inc. will outsource, and TD Waterhouse Bank, N.A. will perform, various banking services, (2) the re-direction of Internet traffic from the TD address <tdwaterhouse.com> to either the address <tdameritrade.com> or another Internet address chosen by Ameritrade and (3) TD's phase-out of its <tdwaterhouse.com> address, in each case to be effective as of the closing date or as promptly thereafter as practicable.

*Canadian Call Center.* TD has agreed, during the period from the date of the share purchase agreement and continuing until 30 days after the closing, to (1) give Ameritrade and TD Waterhouse access to TD Waterhouse's Canadian Call Center and (2) cause the Canadian Call Center to carry on its business, and provide services, support and information to TD Waterhouse and the business subsidiaries, in substantially the same manner as conducted prior to the date of the share purchase agreement.

*Ameritrade Bank.* Ameritrade has agreed to withdraw or not file, as applicable, any applications for permits or approvals relating to the formation of Ameritrade Bank and shall not take any action to qualify Ameritrade Bank or any other affiliate of Ameritrade as an insured depository institution.

*Available Capital.* As of the record date with respect to the special dividend, TD will effectively fund \$1.00 per share of the special dividend, by means of its agreement to cause TD Waterhouse to be capitalized with cash in an amount at least equal to the product of \$1.00 and the aggregate number of shares of Ameritrade common stock outstanding as of a date that is within three business days of such record date, based on information provided to TD by Ameritrade and shall cause TD Waterhouse to maintain such cash capitalization until the closing.

*Indemnification of Directors and Officers.* From and after the closing, TD has agreed to indemnify, defend and hold harmless current and former officers, directors or employees of TD Waterhouse or any of the business subsidiaries against all losses that are paid in settlement of or in connection with any claim, action or investigation to the extent arising out of the fact that such person is or was a director, officer or

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employee of TD Waterhouse or any business subsidiary, pertaining to any matter existing or occurring at or prior to the closing and whether asserted or claimed prior to, or at or after, the closing, in each case to the full extent that TD Waterhouse or such business subsidiary would have been permitted under applicable law and its constituent documents to indemnify such person.

*Certain Other Covenants.* The share purchase agreement contains additional covenants, including covenants relating to the filing of this proxy statement, cooperation regarding filings and proceedings with governmental and other agencies and organizations and obtaining required consents and the sharing of information regarding Ameritrade's and TD's businesses.

**Conditions to the Acquisition of TD Waterhouse**

*Conditions to Each Party's Obligations.* The respective obligations of each of Ameritrade and TD to consummate the acquisition of TD Waterhouse are subject to the satisfaction or waiver on or prior to the closing date of the following conditions:

receipt of the required approval of the Ameritrade stockholders of the Ameritrade Stock Issuance and the amendment and restatement of our certificate of incorporation (including each of the related sub-proposals);

the receipt and continued effectiveness of required regulatory approvals (as described under "The Transaction Regulatory Matters Related to the Acquisition of TD Waterhouse" beginning on page 65);

the absence of any injunction or other legal restraint or prohibition against the acquisition of TD Waterhouse or the consummation of the other transactions contemplated by the share purchase agreement;

the completion of the Reorganization; and

Ameritrade shall have available to it sufficient funds, the ability, under applicable law, to pay the special dividend, and the special dividend shall have been duly declared.

*Conditions to Obligation of Ameritrade.* The obligation of Ameritrade to consummate the acquisition of TD Waterhouse is subject to the satisfaction or waiver on or prior to the closing date of the following conditions:

the representations and warranties of TD being true and correct as of the date of the share purchase agreement and as of the closing date (except that certain representations and warranties will be read without materiality or material adverse effect qualifications), other than, in most cases, those failures to be true and correct that would not result or reasonably be expected to result, individually or in the aggregate, in a material adverse effect on TD Waterhouse;

performance in all material respects by TD of the obligations required to be performed by it at or prior to the closing date;

each of the stockholders agreement, the trademark license agreement, the services agreement and the money market deposit account agreement being in full force and effect (or becoming in full force and effect as of the closing) and the representations and warranties of TD in each such agreement being true and correct in all material respects and TD having performed in all material respects all obligations required to be performed by it thereunder, if any, at or prior to the closing date; and

receipt of a copy of the resolution or resolutions duly adopted by the board of directors (or a duly authorized committee thereof) of TD authorizing the execution, delivery and performance by TD of the share purchase agreement.

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*Conditions to Obligation of TD.* The obligation of TD to consummate the acquisition of TD Waterhouse is subject to the satisfaction or waiver on or prior to the closing date of the following conditions:

the representations and warranties of Ameritrade being true and correct as of the date of the share purchase agreement and as of the closing date (except that certain representations and warranties will be read without materiality or material adverse effect qualifications), other than, in most cases, those failures to be true and correct that would not result or reasonably be expected to result, individually or in the aggregate, in a material adverse effect on Ameritrade;

performance in all material respects by Ameritrade of the obligations required to be performed by it at or prior to the closing date;

each of the stockholders agreement, the amended and restated registration rights agreement, the trademark license agreement, the services agreement and the money market deposit account agreement being in full force and effect (or will become in full force and effect as of the closing) and the representations and warranties of Ameritrade in each such agreement being true and correct in all material respects and Ameritrade having performed in all material respects all obligations required to be performed by it thereunder, if any, at or prior to the closing date;

all necessary actions having been taken, including the execution, acknowledgement and filing of the amended and restated certificate of incorporation with the Secretary of State of the State of Delaware, such that, as of the closing, (1) the Post-Transaction Bylaws and the amended and restated certificate of incorporation are in effect as the duly adopted bylaws and certificate of incorporation of Ameritrade, and (2) the Ameritrade board of directors shall be constituted in accordance with the terms of the stockholders agreement; and

receipt of a copy of the resolution or resolutions duly adopted by the board of directors (or a duly authorized committee thereof) of Ameritrade authorizing the execution, delivery and performance by Ameritrade of the share purchase agreement.

**Termination**

The share purchase agreement may be terminated at any time prior to the closing, by action taken or authorized by the board of directors of the terminating party or parties, whether before or after approval of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, including all related sub-proposals, by the Ameritrade stockholders, in any of the following ways:

by mutual written consent of Ameritrade and TD;

by either Ameritrade or TD if:

any governmental entity which must grant a required regulatory approval required to complete the Share Purchase has denied such approval and this denial has become final and nonappealable or a governmental entity has issued a final nonappealable order prohibiting the consummation of the transactions contemplated by the share purchase agreement;

the closing has not occurred on or before March 31, 2006, except that (1) neither TD nor Ameritrade may terminate the share purchase agreement for this reason if its breach of any obligation under the share purchase agreement has resulted in the failure of the closing to occur by that date, and (2) TD may not terminate the share purchase agreement for this reason if as of March 31, 2006 the Reorganization has not been completed but all of the other closing conditions have been satisfied or waived on or prior to such date;

there is a breach by the other party of the share purchase agreement which would prevent satisfaction of a closing condition and the breach cannot be cured prior to the closing or is not cured prior to 30 days after

receipt of written notice of the breach, but neither Ameritrade nor TD may terminate the share purchase agreement for this reason if it itself is then in material breach of the share purchase agreement; or

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the stockholders of Ameritrade fail to give the necessary approval of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, at the Ameritrade special meeting; by TD, if Ameritrade shall have breached its obligations in any material respect with respect to calling and giving notice of, and using all reasonable efforts to convene and hold, the Ameritrade stockholders meeting, and shall not have cured such breach within five business days following written notice from TD of the breach; and

by TD, if any of the following events occurs, each a Triggering Event:

Ameritrade's board of directors, or any committee thereof, has publicly withdrawn, modified or qualified in any manner adverse to TD its recommendation of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, or any of the related sub-proposals, or has duly adopted a resolution to do so;

Ameritrade's board of directors fails to make or reaffirm (publicly, if so requested) its recommendation in favor of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement and the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, within five business days after TD requests in writing that such recommendation be made or reaffirmed (except that the five business day time period may be extended if a third party has made an acquisition proposal with respect to Ameritrade);

Ameritrade's board of directors or any committee thereof approves or publicly recommends any acquisition proposal;

Ameritrade executes any agreement or contract accepting any acquisition proposal; or

a third party commences a tender or exchange offer relating to securities of Ameritrade and Ameritrade does not inform its security holders within ten business days after such commencement that the Ameritrade board of directors unconditionally recommends rejection of such tender or exchange offer.

**Effect of Termination**

If the share purchase agreement is validly terminated, the agreement will become void without any liability on the part of any of the parties unless a party is in willful breach of the share purchase agreement. However, the provisions of the share purchase agreement relating to broker's and finder's fees, the payment of fees and expenses (including the termination fee and transaction expense reimbursement provisions discussed below) and the confidentiality obligations of the parties will continue in effect notwithstanding termination of the share purchase agreement.

A termination fee of \$97 million will be paid by Ameritrade to TD as follows:

if TD terminates the share purchase agreement because a Triggering Event has occurred, then Ameritrade will pay TD the termination fee of \$97 million on the second business day following such termination; or

if:

either party terminates the share purchase agreement because the stockholders of Ameritrade reject the Ameritrade Stock Issuance or the amendment and restatement of the certificate of incorporation (including any sub-proposal relating to the amendment and restatement of the certificate of incorporation) at the Ameritrade special meeting; or

TD terminates the share purchase agreement because Ameritrade has breached its obligations in any material respect with respect to calling and giving notice of, and using all reasonable efforts to convene and hold, the Ameritrade stockholders meeting, and has not cured such breach within

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five business days following written notice of such breach from TD specifying in reasonable detail the nature of such breach; and

in either such case

an acquisition proposal with respect to Ameritrade has been publicly announced or otherwise communicated or disclosed to the Ameritrade board of directors or one or more of the executive officers of Ameritrade (or any person has publicly announced or otherwise so communicated, disclosed or reiterated an intention, whether or not conditional, to make an acquisition proposal) at any time prior to the date of Ameritrade's stockholders meeting;

then Ameritrade shall reimburse TD for its documented out-of-pocket transaction expenses, not to exceed \$7,500,000, on or before the second business day following such termination, and if within 12 months after such termination Ameritrade or any of its subsidiaries enters into a definitive agreement with respect to, or consummates, an Acquisition (as defined below), then Ameritrade shall pay the termination fee of \$97 million, less the transaction expenses previously paid, on the date of such execution or consummation.

For the purposes of the preceding paragraph only, the term Acquisition, with respect to Ameritrade, shall mean any of the following transactions (other than the transactions contemplated by the share purchase agreement): (1) a merger, reorganization, share exchange, consolidation, business combination, recapitalization or similar transaction involving Ameritrade or any of its subsidiaries in which the holders of Ameritrade common stock immediately preceding such transaction hold less than 65% of the aggregate outstanding voting power or equity interests in (A) the surviving or resulting entity of such transaction and (B) the ultimate parent thereof (if any), (2) a sale or other disposition by Ameritrade of assets representing in excess of 35% of the aggregate fair market value of Ameritrade's consolidated assets (including stock of its subsidiaries) immediately prior to such sale, or (3) the acquisition by any person (including by way of a tender offer or an exchange offer or issuance of securities by Ameritrade to such person), directly or indirectly, of beneficial ownership or a right to acquire beneficial ownership of Ameritrade's securities as a result of which such person beneficially owns, or has the right to acquire, (x) 35% or more of the total voting power or equity interests of Ameritrade (excluding any such voting power or equity interests which such person, or any other person forming a group with such first person, beneficially owned as of June 22, 2005) or (y) 50% or more of the total voting power or equity interests of Ameritrade (without the exclusion referred to in clause (x) above).

**Indemnification**

From and after the closing date, TD has agreed to indemnify Ameritrade for all costs, damages, expenses, taxes or penalties, and reasonable attorney's fees, arising out of or in connection with, resulting from or caused by, among other things: (1) the Reorganization; (2) the excluded subsidiaries (including any actions taken by, or the operations of the business of, or taxes of, any excluded subsidiary); (3) any breach of any of the representations and warranties made by TD to Ameritrade in the share purchase agreement or in any certificate or other writing delivered by TD to Ameritrade pursuant to the share purchase agreement; (4) any breach by TD of any covenant or agreement of TD contained in the share purchase agreement; (5) any pre-closing taxes of TD Waterhouse and (6) other specified matters.

From and after the closing date, Ameritrade has agreed to indemnify TD for all costs, damages, expenses, taxes or penalties, and reasonable attorney's fees, arising out of or in connection with, resulting from or caused by: (1) any breach of any of the representations and warranties made by Ameritrade to TD in the share purchase agreement or in any certificate or other writing delivered by Ameritrade to TD pursuant thereto; (2) any breach by Ameritrade of any covenant or agreement of Ameritrade contained in the share purchase agreement; and (3) any pre-closing taxes of Ameritrade.

Neither Ameritrade nor TD will be liable for any claim for indemnification with respect to any breach of any representation or warranty, unless and until the aggregate amount of indemnifiable losses (taking into account only claims in excess of \$100,000) which may be recovered exceeds \$24,000,000, whereupon the indemnifying party shall be obligated to pay in full all amounts but only to the extent such aggregate damages are in excess of \$15,000,000. Neither Ameritrade nor TD shall be entitled to indemnification with respect to any breach of any representation or warranty for aggregate damages in excess of \$600,000,000.



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The indemnification provided in the share purchase agreement is generally the exclusive post-closing remedy available to any party thereto with respect to any breach of any representation, warranty, covenant or agreement in the share purchase agreement, or otherwise in respect of the transactions contemplated by the share purchase agreement, other than for fraud or intentional breach.

**Amendments, Extension and Waivers**

Any provision of the share purchase agreement may be amended, extended or waived before the closing by a written instrument signed, in the case of an amendment, by each party to the share purchase agreement or, in the case of an extension or waiver, by each party against whom the extension or waiver is to be effective, but after the required approval of the Ameritrade stockholders has been obtained, no amendment may be made that requires the further approval of the stockholders of Ameritrade unless that further approval is obtained.

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**CERTAIN AGREEMENTS RELATED TO THE ACQUISITION OF TD WATERHOUSE**

The following is a summary of selected provisions of the voting agreement, the stockholders agreement, the amended and restated registration rights agreement, the Canadian purchase agreement, the trademark license agreement, the services agreement and the money market deposit account agreement, which Ameritrade has entered or will enter into in connection with the acquisition of TD Waterhouse. While Ameritrade and TD believe this summary covers the material terms of the agreements, it may not contain all of the information that is important to you. The summaries of the voting agreement and the stockholders agreement are qualified in their entirety by reference to those agreements, copies of which are included as Appendices E and F to this proxy statement. We have also filed copies of the amended and restated registration rights agreement, the Canadian purchase agreement and the trademark license agreement as exhibits to a current report on Form 8-K that we filed on September 12, 2005. You should read those agreements because they, and not this proxy statement, are the legal documents that govern the matters described in this section and they will give you a more complete understanding.

**Voting Agreement**

Concurrently with entering into the share purchase agreement, the Ricketts holders, the TA holders and the SLP holders, TD and Ameritrade (solely for purposes of certain sections contained therein) entered into the voting agreement, pursuant to which, among other things, the parties to the voting agreement who are stockholders of Ameritrade agreed, solely in their capacity as stockholders, to vote all of their shares of Ameritrade common stock in favor of the issuance of Ameritrade common stock to TD in accordance with the terms of the share purchase agreement, the amendment and restatement of our certificate of incorporation, including each of the related sub-proposals, and the election of directors designated in accordance with the share purchase agreement and against competing proposals or other actions that would impede the acquisition of TD Waterhouse, unless Ameritrade has effected a change in recommendation with respect to the proposed acquisition of TD Waterhouse as permitted under the share purchase agreement.

The parties to the voting agreement who are stockholders of Ameritrade (other than the Ricketts Grandchildren Trust) have granted specified officers of TD irrevocable proxies to vote or execute written consents with respect to all of the shares of Ameritrade common stock owned by such parties to the voting agreement, in the event that such parties do not vote their shares as required by the voting agreement including additional shares of Ameritrade common stock subsequently acquired by the parties to the voting agreement, unless Ameritrade has effected a change in recommendation with respect to the proposed acquisition of TD Waterhouse as permitted under the share purchase agreement. The proxy is exercisable only in the event that such parties do not vote their shares as required by the voting agreement.

The parties to the voting agreement who are stockholders of Ameritrade have agreed, subject to certain exceptions, they will not:

initiate, solicit or knowingly encourage or facilitate any inquiries or the making of any proposals or offers from any person relating to, or to effect, an acquisition proposal;

participate in any discussions with, or provide any confidential information or data to, any person relating to an acquisition proposal, or engage in any negotiations concerning an acquisition proposal, or knowingly facilitate any effort or attempt to make or implement an acquisition proposal;

approve or recommend, or publicly propose to approve or recommend, any acquisition proposal;

execute or enter into, or approve or recommend, or publicly propose to approve or recommend, any letter of intent, agreement in principle, merger agreement, asset purchase or share exchange agreement, option agreement or other similar agreement related to any acquisition proposal; or

publicly propose or agree to do any of the foregoing.



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In addition, the parties to the voting agreement who are stockholders of Ameritrade have agreed they will not:

agree to release, or release, any person from any obligation under any existing standstill agreement or arrangement relating to Ameritrade; or

unless Ameritrade has effected a change in recommendation with respect to the acquisition of TD Waterhouse as permitted under the share purchase agreement, participate in a solicitation of proxies or powers of attorney or similar rights to vote, or seek to advise or influence any person with respect to the voting of any shares of Ameritrade common stock in connection with any vote or other action on any matter, other than to recommend that Ameritrade stockholders vote in favor of the Ameritrade Stock Issuance and the amendment and restatement of our certificate of incorporation and other matters reasonably requested by TD in connection with the acquisition of TD Waterhouse.

The parties to the voting agreement who are stockholders of Ameritrade have also agreed, subject to certain exceptions, not to sell or otherwise transfer the Ameritrade common stock and options owned or acquired, either directly or indirectly, by them, or their voting rights with respect to such shares, until the earlier of the termination of the share purchase agreement or the completion of the acquisition of TD Waterhouse, unless such transfer is made in compliance with the terms of the voting agreement. However, the parties to the voting agreement are permitted to engage in hedging transactions that have the effect of reducing or eliminating their economic risk with respect to those shares, provided that those shares continue to be voted in accordance with the terms of the voting agreement. On August 18, 2005, TA Associates, Inc. filed a Form 144 with the SEC that indicates an intention to hedge shares of Ameritrade common stock, and TA Associates has informed us that entities affiliated with TA Associates may, subject to market conditions, enter into a hedging transaction with respect to all or a portion of the shares of Ameritrade common stock that are held by such entities. Such a hedging transaction may include forward sales of shares of Ameritrade common stock, which could involve short sales of Ameritrade common stock by the counterparty (or an affiliate of such counterparty) in such hedging transaction. Such a hedging transaction may be executed before the special meeting. Subsequent to Ameritrade's announcement of its proposed acquisition of TD Waterhouse and Citigroup's rendering of its opinion, Citigroup was approached by TA Associates with respect to a possible forward sale transaction involving shares of our stock held by TA Associates. Ameritrade has consented to the participation by Citigroup (or an affiliate of Citigroup) in the execution of any such hedging transaction.

In addition, the voting agreement provides for the termination of an existing stockholders agreement, dated as of April 6, 2002, among Ameritrade and the parties to the voting agreement, which termination becomes effective immediately prior to the completion of the acquisition of TD Waterhouse.

The voting agreement will terminate on the earlier to occur of the termination of the share purchase agreement or the completion of the acquisition of TD Waterhouse.

**Stockholders Agreement**

In connection with the transactions contemplated by the share purchase agreement, Ameritrade, the Ricketts holders and TD entered into a stockholders agreement, which, among other things, contains certain governance arrangements and various provisions relating to board composition, stock ownership, transfers by TD and the Ricketts holders, voting and other matters. The stockholders agreement also contemplates changes to Ameritrade's certificate of incorporation and bylaws to give effect to and facilitate the provisions contained in the stockholders agreement. Other than with respect to certain provisions relating to limitations on acquisitions and restrictions on transfer of Ameritrade securities and the selection of initial outside independent directors of TD Ameritrade, the stockholders agreement does not become effective until the closing of the acquisition of TD Waterhouse.

The following is a summary of selected provisions of the stockholders agreement. The description of the stockholders agreement in this proxy statement has been included to provide you with information regarding its terms. While Ameritrade and TD believe this description covers the material terms of the

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stockholders agreement, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the stockholders agreement, which is attached as Appendix F to this proxy statement and is incorporated by reference in this proxy statement. We urge you to read the entire stockholders agreement carefully.

***Governance of TD Ameritrade***

Following the completion of the acquisition of TD Waterhouse, the board of directors of TD Ameritrade will continue to be classified into three classes, with each class serving staggered, three-year terms. The board of directors will consist of twelve members, and the persons to be nominated for election as directors of TD Ameritrade will be designated as follows:

the Ricketts holders will have the right to designate three of the directors, initially J. Joe Ricketts, J. Peter Ricketts and Thomas S. Ricketts (each of whom will be assigned to a different class of directors, as designated by the Ricketts holders);

TD will initially have the right to designate five of the directors (one of whom will be a class I director, two of whom will be class II directors and two of whom will be class III directors, as designated by TD);

the individual serving as chief executive officer of TD Ameritrade, initially Joseph H. Moglia (who will be a class I director); and

three of the directors will be outside independent directors, who will initially be Michael D. Fleisher, Glenn H. Hutchins and Michael J. Bingle (each of whom will be assigned to a different class of directors, as mutually agreed among themselves prior to the closing of the acquisition of TD Waterhouse).

Following the completion of the acquisition of TD Waterhouse, the number of directors designated by the Ricketts holders (which directors we refer to as the Ricketts directors) may increase or decrease from time to time depending on the ownership position of the Ricketts holders. Generally, the number of Ricketts directors relates to the Ricketts holders' ownership as set forth in the table below, subject to specified cure periods in the event of a decrease in ownership from one threshold to another and minimum holding periods in the event of an increase in ownership from one threshold to another. Any vacancy resulting from the reduction of the number of Ricketts directors will be filled with an outside independent director, effective immediately prior to the following annual meeting of TD Ameritrade stockholders. In the event that the number of Ricketts directors increases as a result of an increase in the Ricketts holders' ownership position, the corresponding number of outside independent directors will be removed and replaced with new Ricketts directors.

<b>Ricketts Holders Ownership Level</b>	<b>Total Number of Ricketts Directors</b>
Greater than 20.83%	3
Greater than 12.50% to 20.83%	2
Greater than 4.17% to 12.50%	1
4.17% or less	0

If, on the first anniversary of the date of the closing of the acquisition of TD Waterhouse, the Ricketts holders do not beneficially own at least 20.83% of the outstanding voting securities of TD Ameritrade, and the number of Ricketts directors has not already been reduced, then one of the Ricketts directors must resign from the board of directors of TD Ameritrade, and the resulting vacancy will be filled by an outside independent director, effective immediately prior to the following annual meeting of TD Ameritrade stockholders.

Following the completion of the acquisition of TD Waterhouse, the number of directors designated by TD (which directors we refer to as TD directors) may increase or decrease from time to time depending on the ownership position of TD. Generally, the number of TD directors relates to TD's ownership as set forth in the table below, subject to specified cure periods in the event of a decrease in ownership from one

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threshold to another and minimum holding periods in the event of an increase in ownership from one threshold to another. Any vacancy resulting from the reduction of the number of TD directors will be filled with an outside independent director, effective immediately prior to the following annual meeting of TD Ameritrade stockholders. In the event that the number of TD directors increases as a result of an increase in TD's ownership position, the corresponding number of outside independent directors will be removed and replaced with new TD directors.

<b>TD Ownership Level</b>	<b>Total Number of TD Directors</b>
Greater than 37.5%	5
Greater than 29.17% to 37.50%	4
Greater than 20.83% to 29.17%	3
Greater than 12.50% to 20.83%	2
Greater than 4.17% to 12.50%	1
4.17% or less	0

If, on the first anniversary of the date of the closing of the acquisition of TD Waterhouse, TD's percentage ownership of the outstanding voting securities of TD Ameritrade is not at least 37.5%, and the number of TD directors has not already been reduced, then one of the TD directors must resign from the board of directors of TD Ameritrade, and the resulting vacancy will be filled by an outside independent director, effective immediately prior to the following annual meeting of TD Ameritrade stockholders.

The stockholders agreement also sets forth procedures by which outside independent directors are selected. A committee of the board of directors of TD Ameritrade comprised solely of all of the outside independent directors, referred to as the outside independent director committee, will have the sole authority on behalf of the board of directors to nominate candidates for election to serve as outside independent directors, except that TD and the Ricketts holders will have the right to reject a director candidate, but not without a reasonable basis for doing so.

Subject to applicable laws and certain conditions, TD Ameritrade will cause each committee of its board of directors (other than the outside independent director committee and a committee of the board of directors comprised solely of all directors who are not TD directors) to initially consist of two TD directors, one Ricketts director, and two outside independent directors. These levels of committee representation are subject to adjustment from time to time based on TD's and the Ricketts holders' maintenance of specified ownership levels.

The parties to the stockholders agreement have agreed to vote their shares of TD Ameritrade common stock in favor of the election of each director nominated for election in the manner provided for in the stockholders agreement and in favor of the removal of each director designated for removal in the manner provided for in the stockholders agreement, and agreed not to vote in favor of any candidate for director who is not nominated in accordance with the stockholders agreement. The Ricketts holders (other than the Ricketts Grandchildren Trust) and TD irrevocably appointed an officer of Ameritrade as their respective proxy and attorney-in-fact to vote in accordance with the terms of the stockholders agreement in the event they fail to comply with its terms. Ameritrade agreed to take all actions within its control to effectuate the corporate governance provisions of the stockholders agreement.

***Tender Offer and Share Ownership***

Following the completion of the acquisition of TD Waterhouse, TD (and J. Joe Ricketts, if he elects to participate as a co-bidder) will commence a cash tender offer pursuant to which TD will offer to purchase a number of shares of TD Ameritrade common stock such that, upon successful completion of the offer, TD will own 39.9% of the outstanding voting securities of TD Ameritrade. If J. Joe Ricketts elects to participate in the tender offer, he may offer to purchase up to the number of shares of TD Ameritrade common stock such that, upon successful completion of the tender offer, he and other members of the Ricketts holders collectively own up to 29% of the voting securities of TD

Ameritrade.

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The offer price will be no less than \$16 per share and the offer will not be subject to any minimum condition on the number of shares tendered.

Following the tender offer described above:

TD may acquire additional shares of TD Ameritrade common stock only up to an aggregate beneficial ownership interest of 39.9% of the outstanding voting securities of TD Ameritrade for a period of three years following completion of the acquisition of TD Waterhouse, and up to an aggregate beneficial ownership of 45% for the remaining term of the stockholders agreement; and

the Ricketts holders may acquire additional shares of TD Ameritrade common stock only up to an aggregate beneficial ownership interest of 29% of the outstanding voting securities of TD Ameritrade.

Notwithstanding the limitations on TD's ownership described above, TD may make a non-public proposal to the board of directors of TD Ameritrade to acquire additional shares pursuant to a tender offer, merger or other business combination for 100% of the outstanding shares of TD Ameritrade common stock not owned by TD, and TD may complete such a transaction, subject to the approval of a majority of the outside independent directors and the holders of a majority of the outstanding shares of TD Ameritrade common stock not affiliated with TD. TD will not, subject to certain exceptions, solicit proxies with respect to TD Ameritrade common stock.

If TD Ameritrade receives a bona fide inquiry or proposal from a third party that could result in a proposal with respect to a merger, acquisition or other business combination involving TD Ameritrade or its subsidiaries in which more than 25% of the voting securities or consolidated assets of TD Ameritrade would be acquired or received by the third party, TD Ameritrade must promptly notify TD of receipt of the inquiry or proposal and offer TD the opportunity to participate in parallel discussions with TD Ameritrade, and must consider proposals from TD regarding a comparable transaction.

***Right to Purchase Securities***

TD and the Ricketts holders will have the right to purchase up to their respective proportionate share of future issuances of TD Ameritrade common stock, options, warrants or other debt or equity securities that are convertible into or exchangeable or exercisable for TD Ameritrade common stock, other than issuances of TD Ameritrade common stock as consideration in connection with an acquisition by TD Ameritrade and certain other issuances specified in the stockholders agreement. If TD Ameritrade proposes to issue shares as consideration in an acquisition, TD Ameritrade will discuss in good faith with TD and the Ricketts holders alternative structures in which a portion of such shares would be sold to TD or the Ricketts holders, with the proceeds of such sale used to fund the acquisition. The stockholders agreement also generally requires TD Ameritrade to repurchase its common stock from time to time following consummation of the acquisition of TD Waterhouse to offset dilution from stock option exercises.

***Transfer and Other Restrictions***

In general, absent approval of a majority of the independent directors, TD and the Ricketts holders may not transfer shares of Ameritrade common stock to any holders of 5% or more of the outstanding shares of Ameritrade common stock, subject to certain exceptions.

For so long as TD and TD Ameritrade constitute the same audit client for audit independence purposes under applicable law, TD will not engage the auditor of TD Ameritrade to provide any non-audit services to TD and TD Ameritrade will not engage the auditor of TD to provide specified non-audit services to TD Ameritrade.

***Information Rights***

TD will be entitled to access to and information regarding TD Ameritrade's business, operations and plans as TD may reasonably require to appropriately manage and evaluate its investment in TD Ameritrade and to comply with its obligations under U.S. and Canadian laws. This access shall be subject to confidentiality and nondisclosure obligations of TD. Likewise, TD is required to provide TD Ameritrade with any information regarding TD that is reasonably required for TD Ameritrade to

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comply with applicable laws. These information rights terminate on the first date that TD no longer owns at least 15% of the outstanding shares of TD Ameritrade.

***Obligation to Repurchase Shares***

If, at any time after the completion of the acquisition of TD Waterhouse, TD Ameritrade issues shares of its common stock pursuant to any compensation or similar program or arrangement, then TD Ameritrade will, subject to certain exceptions, use its reasonable efforts to repurchase a corresponding number of shares of its common stock in the open market within 120 days after any such issuance.

***Non-Competition Covenants***

Subject to certain exceptions described below, none of J. Joe Ricketts (so long as he is serving as a director of TD Ameritrade), TD or any of their respective affiliates, may participate in or own any portion of a business engaged in the business of providing securities brokerage services in the U.S. (or, solely in the case of Mr. Ricketts and his affiliates, in Canada) to retail traders, individual investors and registered investment advisors. If TD acquires indirectly such a competing business as a result of its acquisition of a non-competing business, TD must offer to sell the competing business to TD Ameritrade at its appraised fair value as determined in accordance with the terms of the stockholders agreement. If TD Ameritrade decides not to purchase the competing business, TD must use commercially reasonable efforts to divest the competing business within two years.

J. Joe Ricketts, TD and their respective affiliates will be permitted under the terms of the stockholders agreement to own a passive investment representing less than 2% of a class of equity securities of a competing business so long as the class of equity securities is traded on a national securities exchange in the U.S. or the Toronto Stock Exchange or quoted on the Nasdaq National Market. In addition, neither TD nor any of its affiliates will be prohibited from engaging in the following activities in the ordinary course of their banking and securities businesses:

securities underwriting, placement, dealing, investment banking, financial structuring, securitization or syndication;

acquiring ownership of any equity interest in any person pursuant to normal course broker/ dealer activity;

originating, arranging, purchasing, selling or dealing in secured or unsecured loans, conditional sales agreements, capital and other leases, debt instruments, or any participation interests and any related liquidity, credit enhancement or hedging facilities;

investments made by hedge funds, investment funds and similar pooled investment vehicles in which TD or its affiliates participate as a limited partner or as a member of a limited liability company and do not control the management of the entity;

actions taken to secure or collect debts or other obligations previously contracted by TD or its affiliates in the ordinary course of their business;

full-service brokerage operations conducted by specified subsidiaries of TD, to the extent that such services are provided solely in support of and as a complement to (and not operated separately from) such subsidiaries other investment banking and broker-dealer businesses, but in all cases excluding the provision of securities brokerage services to retail investors and investment advisors which services are offered primarily through the internet or other on-line media;

securities brokerage activities, including offering and selling shares of open and closed end mutual funds (including exchange traded funds, but in all cases excluding the provision of securities brokerage services to retail investors and investment advisors which services are offered primarily through the internet or other on-line media), conducted or carried on by TD Banknorth Inc., any insured depository institution or holding company of which TD Banknorth Inc. or TD acquires control, or any subsidiaries of such entities; and

purchasing, holding, selling or otherwise dealing in securities of other persons in its trust, custodial, investment fund, investment management, brokerage or similar businesses.

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In addition, TD Ameritrade may not hold or acquire control of a bank or similar depository institution except:

incidentally in connection with the acquisition of an entity not principally engaged in the banking business; or

in the event that TD does not control any bank or similar depository institution which is able to offer money market deposit accounts to clients of TD Ameritrade as a designated sweep vehicle or TD has indicated that it is not willing to offer such accounts to clients of TD Ameritrade through one or more of any banks or similar depository institutions it controls.

### ***Termination of the Stockholders Agreement***

The stockholders agreement will terminate (1) with respect to the Ricketts holders, when their aggregate ownership of TD Ameritrade common stock falls below approximately 4% of the outstanding voting securities of TD Ameritrade, and (2) upon the earliest to occur of:

the consummation of a merger, tender offer or other business combination pursuant to which TD offers to acquire 100% of the TD Ameritrade common stock not owned by TD;

the 10th anniversary of the consummation of the acquisition of TD Waterhouse;

the date on which TD's ownership of TD Ameritrade common stock falls below approximately 4% of the outstanding voting securities of TD Ameritrade;

the commencement by a third party of a tender offer or exchange offer for not less than 25% of TD Ameritrade common stock unless the TD Ameritrade board recommends against such tender offer or exchange offer and continues to take all reasonable steps to oppose such tender offer or exchange offer (as reasonably determined by TD);

the approval by the TD Ameritrade board of a business combination that would result in another party owning 25% of the voting securities or consolidated assets of TD Ameritrade or which would otherwise result in a change of control of TD Ameritrade; or

the acquisition of 20% of the voting securities of TD Ameritrade by a third party.

For a period of up to one year following a termination due to events described in the fourth, fifth or sixth bullet points above, TD and the Ricketts holders will be prohibited from acquiring shares of TD Ameritrade common stock that would cause TD's aggregate ownership to exceed 45% of the outstanding voting securities of TD Ameritrade (39.9% in the first three years) or the aggregate ownership of the Ricketts holders to exceed 29% of the outstanding voting securities of TD Ameritrade, except that either TD or the Ricketts holders may exceed these thresholds in connection with a merger, tender offer or other business combination for 100% of the outstanding shares of TD Ameritrade common stock approved by the holders of a majority of the outstanding shares of TD Ameritrade common stock (other than the Ricketts holders and TD). Furthermore, during that period of up to one year following such termination, the provisions of the stockholders agreement relating to the designation and election of directors, transfer restrictions and certain other provisions will remain in effect. In the event that TD's beneficial ownership of TD Ameritrade common stock falls below approximately 4% of the outstanding voting securities of TD Ameritrade, TD must cause each of the TD directors to immediately resign as directors of TD Ameritrade.

### **Amended and Restated Registration Rights Agreement**

Concurrently with entering into the share purchase agreement, Ameritrade, the Ricketts holders, the SLP holders, the TA holders and TD entered into an amended and restated registration rights agreement, or the registration rights agreement, to, among other things, include TD as a party to the existing registration rights agreement among Ameritrade and the Ricketts holders, the SLP holders and the TA holders. The registration rights agreement is substantially the same as the existing registration rights agreement except for the provision of registration rights to TD, the elimination of the term of the registration rights and the potential provision of additional registration rights to

the Ricketts holders. The registration rights agreement becomes effective only upon the closing of the acquisition of TD Waterhouse,

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at which time it will supersede the existing registration rights agreement. The following is a summary of selected provisions of the registration rights agreement.

***Demand Registrations***

Ameritrade has granted the Ricketts holders, the SLP holders, the TA holders and TD, collectively, the right to demand registration of the shares of Ameritrade common stock held by them on 11 separate occasions. Six of the eleven demand rights, including two shelf registrations, are allocated to TD, three of the eleven demand rights, including one shelf registration are allocated to the SLP holders and the TA holders, and two of the eleven demand rights, including one shelf registration, are allocated to the Ricketts holders. In the event that the SLP holders or the TA holders withdraw from the registration rights agreement in accordance with its terms or no longer own any securities of Ameritrade registrable under the registration rights agreement, the Ricketts holders will be allocated one additional demand registration right.

***Piggy Back Registrations***

Ameritrade has also agreed to provide TD, the Ricketts holders, the SLP holders and the TA holders with piggy back registration rights, such that if at any time Ameritrade proposes to file a registration statement with respect to any offering of its securities for its own account or for the account of any stockholder who holds its securities (subject to certain exceptions) then, as expeditiously as reasonably possible (but in no event less than 20 days prior to the proposed date of filing such registration statement), Ameritrade shall give written notice of such proposed filing to all holders of securities subject to registration rights pursuant to the registration rights agreement, or registrable securities, and such notice shall offer the holders of such registrable securities the opportunity to register such number of registrable securities as each such holder may request in writing.

The registration rights granted in the registration rights agreement are subject to customary restrictions such as minimums, blackout periods and limitations on the number of shares to be included in any underwritten offering imposed by the managing underwriter. In addition, the registration rights agreement contains other limitations on the timing and ability of stockholders to exercise demands.

***Expenses***

Ameritrade has agreed to pay all registration expenses, including the legal fees of one counsel for the stockholders exercising registration rights under the registration rights agreement, but excluding underwriting discounts, selling commissions, stock transfer taxes and any other legal fees of such stockholders.

***Ameritrade Canada Purchase Agreement***

Concurrently with entering into the share purchase agreement, Ameritrade, Datek Online Holdings Corp., a wholly owned subsidiary of Ameritrade, or Datek, TD and TD Waterhouse Canada Inc., or TD Waterhouse Canada, entered into the Canadian purchase agreement. Under the Canadian purchase agreement, TD Waterhouse Canada agreed to acquire all of the shares of Ameritrade Canada in exchange for \$60,000,000 in cash, subject to adjustments based on the final net tangible book value of Ameritrade Canada. We refer to this transaction as the Canadian share purchase in this proxy statement.

***Regulatory Approvals***

As members of the Investment Dealers Association of Canada (a self-regulatory organization for Canadian registered dealers), TD Waterhouse Canada and Ameritrade Canada are required to provide notice to the Secretary of the Investment Dealers Association and obtain approval for the various steps relating to the acquisition of Ameritrade Canada by TD Waterhouse Canada.

Ameritrade Canada and TD Waterhouse Canada are registered in all Canadian provinces and territories as investment dealers. Pursuant to the securities laws and regulations of certain provinces of Canada, TD Waterhouse Canada and Ameritrade Canada are required to provide notice to, or obtain approval from, a number of the applicable provincial securities commissions regarding the acquisition of Ameritrade Canada by TD Waterhouse Canada.

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***Representations and Warranties***

The Canadian purchase agreement contains customary representations and warranties made by Ameritrade and Datek, on the one hand, to TD and TD Waterhouse Canada, on the other hand, regarding aspects of the business, financial condition and structure of Ameritrade Canada.

Certain of these representations and warranties are qualified as to materiality or material adverse effect. In addition, Ameritrade and Datek on the one hand and TD and TD Waterhouse Canada on the other hand have each agreed to indemnify the other parties for any damages incurred as a result of breaches of their respective representations and warranties. However, the parties will not be entitled to further indemnification for any claims already made under the indemnification provisions set out in the share purchase agreement.

***Conditions to Closing***

The respective obligations of each party to the Canadian purchase agreement are subject to the satisfaction by the closing date of certain customary closing conditions.

***Termination***

The Canadian purchase agreement may be terminated at any time before the completion of the Canadian share purchase by mutual written consent of TD Waterhouse Canada and Datek. Either TD Waterhouse Canada or Datek may terminate the Canadian purchase agreement if:

any governmental entity which must grant requisite regulatory approval has denied an approval required to consummate the transactions contemplated by the Canadian purchase agreement and such denial has become final and nonappealable;

any governmental authority of competent jurisdiction shall have issued a final nonappealable order enjoining or otherwise prohibiting the consummation of the transactions contemplated by the Canadian purchase agreement; and

the closing shall not have occurred on or before the earlier of March 31, 2006 and within 90 days following the completion of the acquisition of TD Waterhouse.

Any party may terminate the Canadian purchase agreement: (1) in the event of a breach by another party of its representations, warranties or covenants contained in the Canadian purchase agreement, which breach either is not cured within 30 days after the giving of written notice or is of a nature which cannot be cured prior to closing; or (2) if the share purchase agreement is terminated in accordance with its terms prior to completion of the acquisition of TD Waterhouse.

**Trademark License Agreement**

Concurrently with entering into the share purchase agreement, Ameritrade and TD entered into a trademark license agreement, which requires Ameritrade to use the TD trademark and logo as part of Ameritrade's corporate identity, TD Ameritrade, following the completion of the acquisition of TD Waterhouse. The following is a summary of selected provisions of the trademark license agreement.

***The TD Ameritrade Name***

Pursuant to the terms of the trademark license agreement, Ameritrade is required to use the TD Ameritrade name in the U.S. as its exclusive corporate entity name and to use the TD logo in connection with the TD Ameritrade name in the U.S. in corporate identity and marketing materials. Ameritrade has further agreed to use the TD Ameritrade name and, in conjunction with it, the TD logo, in other countries unless Ameritrade reasonably determines such use would not be consistent with or to the benefit of Ameritrade's business in a particular country.

The trademark license agreement grants Ameritrade a worldwide (except in Canada) license to use the name and trademark TD as part of the trademark, service mark, trade name, corporate name or domain name

TD AMERITRADE in connection with Ameritrade's business of providing securities brokerage services to retail traders, individual investors and registered investment advisers. Pursuant to the

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terms of the trademark license agreement, TD has agreed not to use the TD mark or any trademarks, service marks, trade names, corporate names and domain names incorporating the TD mark in connection with any business or activity providing securities brokerage services to retail traders, individual investors and registered investment advisers in the U.S.

***Ownership and Protection of the TD Ameritrade Name***

Pursuant to the terms of the trademark license agreement, TD and Ameritrade will jointly own the TD Ameritrade name. Ameritrade has agreed to be responsible for the registration, maintenance and prosecution of any trademark applications and registrations for the TD Ameritrade name. Ameritrade has further agreed to use commercially reasonable efforts to keep TD informed and to allow TD to provide reasonable input as to the registration, maintenance and prosecution strategy in connection with the TD Ameritrade trademark. Pursuant to the terms of the trademark license agreement, Ameritrade and TD have each agreed to be responsible for 50% of the costs and expenses associated with the registration, maintenance and prosecution of the TD Ameritrade trademark.

***Indemnification***

Pursuant to the terms of the trademark license agreement, Ameritrade has agreed to indemnify TD for liability incurred by TD as a result of Ameritrade's (and any of its sublicensees') breach of its obligations under the trademark license agreement. TD has agreed to indemnify Ameritrade for liability incurred by Ameritrade so long as Ameritrade's actions are in accordance with the terms of the trademark license agreement and Ameritrade's use of the TD Ameritrade name or the TD logo, as the case may be, is in a jurisdiction where TD has trademark applications or registrations or is using or has used the TD trademark or logo, as the case may be.

***Term; Termination***

The term of the trademark license agreement is 10 years, and is automatically renewable for additional periods of 10 years each, unless earlier terminated. Under the terms of the trademark license agreement, Ameritrade and TD can each terminate the trademark license agreement upon any of the following events: if the other party becomes insolvent, makes an assignment for the benefit of creditors, a trustee or receiver is appointed for a material part of the other party's assets, or a proceeding in bankruptcy is not dismissed within 90 days; if the other party fails to cure a material breach within 60 days of the initial notice of material breach; if the other party is subject to a decree dissolving such other party which has been in effect for more than 30 days; if there is a change of control of the other party that results in such other party being controlled by a competitor; if TD beneficially owns voting securities representing 4.17% or less of the total voting power of TD Ameritrade; if a third party bona fide tender or exchange offer for not less than 25% of the outstanding shares of common stock of TD Ameritrade is consummated; if the Ameritrade board of directors consummates a takeover proposal from a third party; or if the TD trademark or logo becomes materially damaged by the other party.

***Effects of Termination***

Upon termination of the trademark license agreement, Ameritrade has agreed to stop all new uses of the TD mark within six months and discontinue all use of the TD mark within 12 months. Neither Ameritrade nor TD shall be entitled to use the TD Ameritrade name after the trademark license agreement terminates, and all trademark applications and registrations for the TD Ameritrade trademark shall be expressly abandoned.

***Money Market Deposit Account Agreement***

Concurrently with entering into the share purchase agreement, Ameritrade, TD and certain subsidiaries of TD Waterhouse agreed to enter into a money market deposit account agreement, or the MMDA agreement, pursuant to which money market deposit accounts will be made available as designated sweep vehicles to clients of TD Ameritrade through TD Waterhouse Bank. One of the subsidiaries of TD Waterhouse will provide marketing and support services with respect to the money market deposit accounts. In exchange for providing marketing services relating to the money market

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deposit accounts, TD Waterhouse Bank will pay TD Ameritrade a marketing fee calculated in accordance with the terms of the MMDA agreement. Subject to limited exceptions, the MMDA agreement has an initial term of two years and is automatically renewable for successive two year terms, provided that following the first anniversary of the agreement, the agreement may be terminated by any party upon one year's notice. TD Ameritrade may terminate the MMDA agreement upon 90 days notice if:

the stockholders agreement terminates because TD's ownership percentage of TD Ameritrade falls below a specified level;

TD breaches certain of the representations or covenants it made in the MMDA agreement;

TD Waterhouse Bank fails to maintain certain levels of capitalization; or

TD Waterhouse Bank breaches any of the covenants, obligations or other agreements it made in the MMDA agreement and fails to cure such breaches within the time periods allocated in the MMDA agreement.

The MMDA agreement will not be executed or become effective until the closing of the acquisition of TD Waterhouse.

**Services Agreement**

Concurrently with entering into the share purchase agreement, Ameritrade, an affiliate of TD and certain subsidiaries of TD Waterhouse agreed to enter into a services agreement, pursuant to which certain funds will be made available as money market sweep or direct purchase options to TD Ameritrade clients, and TD Ameritrade will perform marketing support services with respect to those funds. In consideration for offering the funds and performing the marketing support services, an affiliate of TD will compensate TD Ameritrade in accordance with the provisions of the services agreement. Pursuant to the terms of the services agreement, TD Ameritrade will assume and perform certain services for the applicable funds pursuant to certain preexisting agreements. In exchange for assuming and performing these obligations, TD Ameritrade will receive the fees set forth in those agreements. The services agreement has an initial term of two years and is automatically renewable for successive two year terms (so long as certain related agreements are in effect), provided that following the first anniversary of the agreement, the agreement may be terminated by any party thereto upon one year's prior written notice. TD Ameritrade may terminate the services agreement upon 120 days notice if it does not earn monthly fees greater than a specified level.

The services agreement will not be executed or become effective until the closing of the acquisition of TD Waterhouse.

**Post-Transaction Bylaws of TD Ameritrade**

In connection with the transactions contemplated by the share purchase agreement, Ameritrade and TD have agreed to a number of governance rights and restrictions relating to TD's investment in Ameritrade, as set forth in the stockholders agreement. The proposed form of bylaws that will govern Ameritrade following the completion of the proposed acquisition of TD Waterhouse, or the Post-Transaction Bylaws, contains provisions necessary to implement some of the terms of the stockholders agreement and other governance terms agreed to by TD and Ameritrade, as well as other changes approved by the board of directors of Ameritrade, and accordingly differs in material respects from Ameritrade's existing bylaws.

The following is a summary of selected provisions of the post-transaction bylaws. While Ameritrade and TD believe that this description covers the material terms of the Post-Transaction Bylaws which differ materially from Ameritrade's existing bylaws, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the Post-Transaction Bylaws, which are attached as Appendix D to this document and are incorporated by reference in this document. We urge you to read the entire Post-Transaction Bylaws carefully.

**Table of Contents*****Article II Stockholders***

Article II of the Post-Transaction Bylaws has been amended to (1) provide the Ameritrade board of directors with the discretion to determine that any meeting of stockholders may be held solely by means of remote communication, (2) provide that special meetings of the stockholders may only be called in accordance with Article 5 of the amended and restated certificate of incorporation following the proposed acquisition of TD Waterhouse, and (3) provide that at all meetings of stockholders for the election of directors at which a quorum is present, a plurality of the votes cast shall be sufficient to elect.

***Article III Directors***

Article III of the Post-Transaction Bylaws has been amended to (1) provide for the appointment of an Outside Independent Directors Committee consisting of such members as may be required by the stockholders agreement, (2) provide for the appointment of a Non-TD Directors Committee consisting of such members as may be required by the stockholders agreement, (3) eliminate the concept of an Executive Committee, (4) provide for consents and waivers by the board of directors to be conveyed by electronic transmission and (5) eliminate the nine member board provisions in a manner consistent with the amended and restated certificate of incorporation following the proposed acquisition of TD Waterhouse.

***Article IV Officers***

Article IV of the Post-Transaction Bylaws has been amended to (1) provide that, so long as the corporate governance provisions of the stockholders agreement remain in effect, any new Chief Executive Officer of TD Ameritrade may be appointed only with the approval of at least two-thirds of all of the directors then serving on the board of directors, and (2) provide for the following additional positions: Vice Chairman of the board of directors, a President, a Chief Operating Officer, one or more Executive Vice Presidents and one or more Senior Vice Presidents.

***Article VII Nomination of Directors and Presentation of Business at Stockholder Meetings***

Article VII of the Post-Transaction Bylaws has been amended to provide that, so long as the corporate governance provisions of the stockholders agreement remain in effect, any stockholder then entitled to designate or nominate one or more directors of Ameritrade under the terms of the stockholders agreement may nominate persons for election as directors at any meeting of the stockholders without complying with the advance notice provisions. This right is currently granted under Ameritrade's existing certificate of incorporation to the Ricketts holders and certain entities affiliated with the TA holders and the SLP holders. This amendment incorporates in the bylaws the provision that appears in the proposed amendment and restatement of our certificate of incorporation, which is substantially the same as the provision in Ameritrade's existing certificate of incorporation, and extends this right to TD.

***Article IX Amendments***

Article IX of the Post-Transaction Bylaws has been amended to provide that the Chief Executive Officer appointment provision (discussed above under Article IV) may only be amended by (1) the unanimous vote of the Board of Directors or (2) the affirmative vote of the holders of at least 80% in voting power of the shares of capital stock of the corporation issued and outstanding and entitled to vote thereon.

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**PROPOSAL NO. 2,  
INCLUDING SUB-PROPOSAL NOS. 2A-2F  
THE POST-TRANSACTION CERTIFICATE OF INCORPORATION**

In connection with TD's investment in Ameritrade under the share purchase agreement, Ameritrade and TD agreed that Ameritrade would amend and restate its certificate of incorporation and bylaws to implement a number of governance and other changes. We refer to the amended and restated certificate of incorporation in this section as the Post-Transaction Certificate of Incorporation. At the special meeting you will be asked to consider and vote to approve the Post-Transaction Certificate of Incorporation. In order to comply with applicable rules of the SEC relating to proxy statements, we are also presenting Sub-Proposal Nos. 2A through 2F to Ameritrade stockholders as separate proposals for approval. As a matter of state law, only the approval of the Post-Transaction Certificate of Incorporation, as a whole, is required. **However, because we are required to present the sub-proposals separately and because all of the revisions to Ameritrade's existing certificate of incorporation that are reflected in the Post-Transaction Certificate of Incorporation are considered by Ameritrade and TD to be integral parts of the overall transaction, the approval of Proposal No. 2 and each of the Sub-Proposals 2A through 2F is a condition to completion of the acquisition of TD Waterhouse. Accordingly, a vote against Proposal No. 2 or any of the related Sub-Proposal Nos. 2A through 2F is effectively a vote against the acquisition of TD Waterhouse.**

***Sub-Proposal No. 2A: Proposal to approve provisions restricting the authority of TD Ameritrade to implement anti-takeover measures that would potentially conflict with the terms of the stockholders agreement.***

Article 3 of the Post-Transaction Certificate of Incorporation prohibits TD Ameritrade from adopting a stockholder rights plan or other similar anti-takeover measure unless it both expressly excludes TD and its affiliates and the Ricketts holders from its operation to the extent any of their actions would be permitted under the stockholders agreement as well as does not impair any of their rights under the stockholders agreement. By its terms, this provision of the Post-Transaction Certificate of Incorporation will terminate upon the termination of the stockholders agreement or, if the stockholders agreement is terminated before the tenth anniversary of the completion of the acquisition of TD Waterhouse as a result of the commencement of certain tender or exchange offers by a third party, the approval of certain business combinations by the TD Ameritrade board or directors or the acquisition of a significant amount of TD Ameritrade common stock by a third party (as described in the fourth, fifth and sixth bullet points under "Certain Agreements Related to the Acquisition of TD Waterhouse" Stockholders Agreement Termination of the Stockholders Agreement beginning on page 96) upon the expiration of the post-termination period of up to one year following such termination. This provision will also terminate, with respect to the Ricketts holders, upon the earlier occurrence of the date on which Ameritrade directors designated by them are required to resign from the Ameritrade board of directors. This provision is intended to reflect the terms of the stockholders agreement, which contains specific negotiated terms and procedures that TD and the Ricketts holders must comply with if they wish to acquire additional shares of TD Ameritrade common stock.

***Sub-Proposal No. 2B: Proposal to approve the increase of the authorized shares of common stock, \$0.01 par value per share, of TD Ameritrade from 650,000,000 to 1,000,000,000.***

Article 4.a. of the Post-Transaction Certificate of Incorporation increases the authorized shares of common stock, \$0.01 par value per share, from 650,000,000 to 1,000,000,000. As of September 2, 2005, there were approximately 405,121,706 shares of Ameritrade common stock issued and outstanding and approximately 52,290,524 shares reserved for issuance under Ameritrade's stock benefit plans and agreements, leaving only 192,587,770 authorized shares available for future issuance. The share purchase agreement requires Ameritrade to issue 193,600,000 shares of its common stock. Therefore, unless Ameritrade's certificate of incorporation is amended to authorize additional shares of common stock, the acquisition of TD Waterhouse cannot be consummated.

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In addition, if this proposal to increase the authorized shares of common stock were approved, additional shares of common stock would be available for issuance in the future for such corporate purposes as the board of directors deems advisable from time to time without further action by the stockholders, unless such action is required by applicable law or by the rules of The Nasdaq Stock Market or of any stock exchange upon which the TD Ameritrade shares may then be listed. Ameritrade may need to have such shares available to provide additional flexibility to use its capital stock for business and financial purposes in the future. The additional shares may be used, without further stockholder approval in certain circumstances, for various purposes including, without limitation, raising capital, providing equity incentives to employees, officers or directors, establishing strategic relationships with other companies and expanding TD Ameritrade's business through the acquisition of other businesses or products. Ameritrade has no present oral or written agreement, commitment, plan or intent to issue any of the additional shares provided for in this proposal beyond issuances under stockholder approved equity incentive plans and the Ameritrade Stock Issuance.

***Sub-Proposal No. 2C: Proposal to approve a provision which prohibits action by written consent of stockholders of TD Ameritrade.***

The Post-Transaction Certificate of Incorporation would require any action to be taken by Ameritrade's stockholders to be taken at a duly called annual or special meeting of stockholders. Ameritrade's current certificate of incorporation permits Ameritrade stockholders to also act by written consent in lieu of a meeting but the Post-Transaction Certificate of Incorporation prohibits stockholder actions by written consent. The effect of this change is to require the convening of a stockholders meeting for any action to be taken by TD Ameritrade stockholders, thereby eliminating the ability of TD Ameritrade stockholders holding sufficient shares to take action on behalf of the stockholders from taking such action other than at a duly called stockholders meeting.

Because TD Ameritrade will have several significant stockholders following the transaction holding in the aggregate a majority of the outstanding shares of TD Ameritrade, our board of directors determined that it would be in the best interest of our stockholders to require that any corporate action requiring a stockholder vote be considered at an annual or special meeting at which all of our stockholders may participate.

***Sub-Proposal No. 2D: Proposal to approve a provision increasing the size of the TD Ameritrade board of directors from nine members to twelve members during certain periods specified in the stockholders agreement.***

The stockholders agreement provides for a twelve-member board of directors following the completion of the acquisition of TD Waterhouse. The current certificate of incorporation of Ameritrade provides for a nine-member board of directors. Accordingly, the Post-Transaction Certificate of Incorporation provides that the board of directors of TD Ameritrade will be comprised of twelve members. The Post-Transaction Certificate of Incorporation further provides that, following the occurrence of a Termination Event (or, if such Termination Event is a Specified Termination Event, following the expiration of the Post-Termination Period (as such terms are defined below)), the Ameritrade board of directors may fix and change the size of the Ameritrade board. See Articles 6.a.(i) and 6.b. of the Post-Transaction Certificate of Incorporation.

For purposes of the Post-Transaction Certificate of Incorporation,

(1) a Termination Event is generally defined as the earliest to occur of:

the consummation of a merger, tender offer or other business combination pursuant to which TD offers to acquire 100% of the TD Ameritrade common stock not owned by TD;

the tenth anniversary of the consummation of the acquisition of TD Waterhouse;

the date on which TD's ownership of TD Ameritrade common stock falls below approximately 4% of the outstanding voting securities of TD Ameritrade;

the commencement by a third party of a tender offer or exchange offer for not less than 25% of TD Ameritrade common stock unless the TD Ameritrade board recommends against such



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tender offer or exchange offer and continues to take all reasonable steps to oppose such tender offer or exchange offer (as reasonably determined by TD);

the approval by the TD Ameritrade board of a business combination that would result in another party owning 25% of the voting securities or consolidated assets of TD Ameritrade or which would otherwise result in a change of control of TD Ameritrade; or

the acquisition of 20% of the voting securities of TD Ameritrade by a third party;

(2) a Specified Termination Event is generally defined as a Termination Event of the type specified in the fourth, fifth and sixth bullet points above, and

(3) the Post-Termination Period is generally defined as the shortest of:

the period from the date of a Specified Termination Event until the first anniversary thereof;

the period from the date of a Specified Termination Event to the occurrence of a Termination Event of the type described in the first, second or third bullet points above; and

the period from the date of a Specified Termination Event until the consummation by TD or its affiliates or by the Ricketts holders of a merger, tender offer or other business combination for 100% of the outstanding shares of TD Ameritrade common stock (not owned by TD and its affiliates or the Ricketts holders, as applicable).

In addition, the Post-Transaction Certificate of Incorporation makes conforming changes to the provisions of the Ameritrade certificate of incorporation providing for the division of the Ameritrade board into three classes. Specifically, it provides that, rather than having each such class consist of three directors, each such class will consist as nearly as possible of one-third of the total number of directors constituting the entire TD Ameritrade board. Further, it specifies that the term of office of class I directors will expire at the first annual meeting of stockholders following the effectiveness of the Post-Transaction Certificate of Incorporation and every third succeeding annual meeting thereafter, the term of office of class II directors will expire at the second annual meeting of stockholders following the effectiveness of the Post-Transaction Certificate of Incorporation and every third succeeding annual meeting thereafter and the term of office of class III directors will expire at the third annual meeting of stockholders following the effectiveness of the Post-Transaction Certificate of Incorporation and every third succeeding annual meeting thereafter. See Articles 6.c. and 6.d. of the Post-Transaction Certificate of Incorporation.

***Sub-Proposal No. 2E: Proposal to approve a provision setting forth procedures for the nomination or appointment of outside independent directors to the TD Ameritrade board of directors and the maintenance of an outside independent directors committee and a non-TD directors committee.***

The stockholders agreement provides that the Ameritrade board will form an outside independent directors committee composed solely of all of the outside independent directors on the TD Ameritrade board which committee, among other things, will have the authority at certain times to nominate or appoint new outside independent directors to the TD Ameritrade board. Article 6.g.(i) of the Post-Transaction Certificate of Incorporation requires the TD Ameritrade board of directors to maintain such a committee prior to the occurrence of a Termination Event (and, following a Specified Termination Event, during any Post-Termination Period).

Article 6.a.(ii) of the Post-Transaction Certificate of Incorporation provides that, whenever this committee is authorized to nominate or appoint an outside independent director, the committee will prepare and provide to TD and a representative of the Ricketts holders (initially J. Joe Ricketts), a list of candidates for the position. Article 6.a.(ii) of the Post-Transaction Certificate of Incorporation further provides that, within ten business days of receipt of this list, each of TD and the representative of the parties to the stockholders agreement affiliated with the Ricketts holders may notify the outside independent directors committee of any candidates included on the list which they reject from consideration, provided that they may not reject a candidate without a reasonable basis for doing so. Article 6.a.(ii) of the Post-Transaction Certificate of Incorporation further provides that the outside independent directors committee will nominate or appoint for outside independent director positions, only candidates included on such a list and not

rejected by TD or the representative of the Ricketts holders.

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Article 6.a.(ii) of the Post-Transaction Certificate of Incorporation also provides that the outside independent directors committee will take all action available to it to ensure that, at all times, at least three outside independent directors qualify to serve as members of the audit committee of the TD Ameritrade board under Section 4350(d) of the Nasdaq National Marketplace Rules or any successor or comparable requirement.

In addition, the stockholders agreement contemplates that the TD Ameritrade board will form a committee composed of all of the directors on the Ameritrade board not designated by TD for purposes of making determinations relating to any acquisition by TD Ameritrade of a competing business held by TD. Accordingly, Article 6.g.(ii) of the Post-Transaction Certificate of Incorporation provides that, prior to a Termination Event, the Ameritrade board of directors will maintain a committee of the board comprised solely of all of the members of the TD Ameritrade board other than directors designated by TD under the stockholders agreement.

***Sub-Proposal No. 2F: Proposal to approve a provision which allocates corporate opportunities between TD Ameritrade and TD.***

Article 8.b. of the Post-Transaction Certificate of Incorporation expands upon an existing provision of the certificate of incorporation of Ameritrade to specifically allocate corporate opportunities between TD Ameritrade and TD until such time as TD no longer beneficially owns voting securities of Ameritrade representing at least 4.17% of the total voting power of all outstanding Ameritrade voting securities. These provisions were negotiated and agreed to by the parties because Ameritrade and TD currently engage in, and in the future may engage in, similar activities or lines of business and as a result may have an interest in the same areas and types of corporate opportunities.

The procedure for allocating corporate opportunities set forth in Article 8.b. of the Post-Transaction Certificate of Incorporation provides that if a TD Ameritrade director or officer who is also a director or officer of TD acquires knowledge of a potential transaction, matter or opportunity which may be a corporate opportunity for both TD Ameritrade and TD, the director or officer will have fully satisfied and fulfilled his or her fiduciary duty to TD Ameritrade and its stockholders with respect to such corporate opportunity if he or she acts in a manner consistent with the following agreed upon policy for the allocation of corporate opportunities:

A corporate opportunity offered to any person who is a TD Ameritrade officer and who is also a director but not an officer of TD will belong to TD Ameritrade;

A corporate opportunity offered to any person who is a director but not an officer of TD Ameritrade and who is also a director or officer of TD, will belong to TD Ameritrade if the opportunity is expressly offered to that person in writing solely in his or her capacity as a director of TD Ameritrade and otherwise will belong to TD; and

A corporate opportunity offered to a person who is an officer of both TD Ameritrade and TD will belong to TD Ameritrade if the opportunity is expressly offered to the person in writing solely in his or her capacity as an officer of TD Ameritrade, and otherwise will belong to TD.

The Post-Transaction Certificate of Incorporation provides that TD Ameritrade renounces any interest or expectancy in, or in being offered the opportunity to participate in, any corporate opportunity covered by, but not allocated to it pursuant to, the foregoing.

For purposes of this provision of the Post-Transaction Certificate of Incorporation, a TD Ameritrade director who is Chairman or Vice Chairman of the Ameritrade board of directors is not deemed to be an TD Ameritrade officer unless the director is an employee of TD Ameritrade. In addition, these provisions of the Post-Transaction Certificate of Incorporation do not limit or eliminate duties, responsibilities and obligations with respect to TD Ameritrade's proprietary information and do not amend or modify any written contractual arrangements between TD Ameritrade stockholders or their affiliates and TD Ameritrade or its affiliates.

This provision for allocating corporate opportunities may only be amended by the affirmative vote of the holders of at least 80% of the voting power of Ameritrade's issued and outstanding capital stock that is

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entitled to vote on that matter, and any such amendment (or any adoption of any inconsistent provision in our certificate of incorporation) will not apply to any matter occurring prior to such amendment or adoption.

***Vote Required and Board of Directors Recommendation***

The required vote to approve Proposal No. 2, including Sub-Proposal Nos. 2A through 2F, is the affirmative vote of the holders of a majority of outstanding shares of Ameritrade common stock entitled to vote at the special meeting. The approval of Proposal No. 2, including Sub-Proposal Nos. 2A through 2F, is a condition to completion of the acquisition of TD Waterhouse, and thus a vote against Proposal No. 2, or any of Sub-Proposal Nos. 2A through 2F, effectively will be a vote against the acquisition of TD Waterhouse.

**Ameritrade's board of directors has unanimously approved the Post-Transaction Certificate of Incorporation, has concluded that it is advisable and in the best interests of Ameritrade and its stockholders and unanimously recommends that Ameritrade stockholders vote *FOR* Proposal No. 2, including each of Sub-Proposal Nos. 2A-2F.**

***Additional Changes to the Certificate of Incorporation***

In addition to the amendments to the certificate of incorporation in Sub-Proposal Nos. 2A-F, if Proposal No. 2 is approved, Ameritrade's current certificate of incorporation will also be amended to (1) change the corporate name of Ameritrade to TD Ameritrade Holding Corporation, (2) to make changes to the provisions relating to the calling of special meetings of stockholders, and (3) conform certain procedures for the nomination and removal of directors to the terms of the stockholders agreement. These amendments are described in detail below.

We are not asking for separate approval of these additional amendments to our certificate of incorporation because these changes do not represent material changes in the rights of Ameritrade stockholders. According to applicable SEC rules, corporations are only required to seek separate stockholder approval for amendments to their charter documents that materially affect the rights of their stockholders. While we are not required to obtain separate stockholder approval for these additional amendments to the certificate of incorporation, these amendments are part of the changes that are proposed to be made to Ameritrade's certificate of incorporation under Proposal No. 2, and stockholders may find the following summary of these additional amendments to be informative and relevant in evaluating that proposal.

***Amendment to change the corporate name of Ameritrade to TD Ameritrade Holding Corporation.***

Ameritrade's current certificate of incorporation provides that the name of Ameritrade is Ameritrade Holding Corporation. The Post-Transaction Certificate of Incorporation provides that the name of Ameritrade will be TD Ameritrade Holding Corporation. See Article 1 of the Post-Transaction Certificate of Incorporation.

***Amendment to the provisions relating to the calling of special meetings of stockholders.***

Under Ameritrade's current certificate of incorporation, a special meeting of stockholders may be called by holders of 25% or more of the outstanding shares of Ameritrade common stock, by the chairman of the board of directors of Ameritrade, by the chief executive officer of Ameritrade or by a majority of the members of the board of directors of Ameritrade. The Post-Transaction Certificate of Incorporation eliminates the right of the chairman of the board of directors or the chief executive officer to call a special meeting of stockholders. Accordingly, a special meeting of stockholders may be called only by the holders of record of 25% or more of the outstanding shares of Ameritrade common stock or by a majority of the members of the board of directors of Ameritrade. In addition, the Post-Transaction Certificate of Incorporation specifies that business transacted at special meetings shall be confined to the purpose or purposes stated in the notice of meeting for that meeting. See Article 5 of the Post-Transaction Certificate of Incorporation.

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***Amendments to conform certain procedures for the nomination and removal of directors to the terms of the stockholders agreement.***

Ameritrade's current certificate of incorporation provides that, until certain dates specified in the current Ameritrade stockholders agreement (which agreement will be superseded by the stockholders agreement to be entered into in connection with the acquisition of TD Waterhouse), members of the Ameritrade board of directors may be removed without cause. The Post-Transaction Certificate of Incorporation conforms these time periods to the terms of the new stockholders agreement and, accordingly, specifies that prior to a Termination Event (and, following a Specified Termination Event, during any Post-Termination Period), members of the Ameritrade board may be removed without cause by the holders of a majority of the outstanding shares of Ameritrade common stock. See Article 6.e. of the Post-Transaction Certificate of Incorporation.

Similarly, Ameritrade's current certificate of incorporation provides that provisions in Ameritrade's certificate of incorporation or bylaws requiring advance notice for the designation or nomination of members of Ameritrade's Board of directors will not apply at certain times to Ameritrade stockholders entitled to nominate directors under Ameritrade's current stockholders agreement. The Post-Transaction Certificate of Incorporation conforms these provisions to the terms of the new stockholders agreement. Accordingly, Article 6.f. of the Post-Transaction Certificate of Incorporation provides that prior to a Termination Event (and, following a Specified Termination Event, during any Post-Termination Period), any stockholder entitled to designate or nominate one or more TD Ameritrade directors under the stockholders agreement may do so without complying with any advance notice provisions in TD Ameritrade's certificate of incorporation or bylaws.

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**PROPOSAL NO. 3  
APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE  
1996 LONG-TERM INCENTIVE PLAN**

At the special meeting, the stockholders will be asked to approve an amendment and restatement of the Ameritrade Holding Corporation 1996 Long-Term Incentive Plan. We refer to this plan as the 1996 Plan in this proxy statement. The board of directors originally adopted the 1996 Plan effective as of October 1, 1996 and amended and restated the 1996 Plan as of September 9, 2002.

The board of directors believes that Ameritrade must offer a competitive equity incentive program if it is to continue to successfully attract and retain the best possible candidates for positions of responsibility within Ameritrade. The board of directors expects that the 1996 Plan will continue to be an important factor in attracting, retaining and rewarding the high caliber employees essential to our success and in motivating these individuals to strive to enhance our growth and profitability.

The board of directors of Ameritrade has determined, contingent upon stockholder approval, to increase the share reserve under Ameritrade's 1996 Long-Term Incentive Plan by 19,000,000 shares, as requested in this Proposal No. 3, to increase the share reserve under Ameritrade's 1996 Directors Incentive Plan by 1,000,000 shares, as requested in Proposal No. 4, and to decrease the share reserve under Ameritrade's 1998 Stock Option Plan by a total of 20,000,000 shares. This will help ensure that Ameritrade (1) has a reasonable number of shares available to grant incentive awards under the 1996 Long-Term Incentive Plan and the 1996 Directors Incentive Plan and (2) has the most flexibility with respect to the types of incentive awards which may be granted.

To enable Ameritrade to continue to offer a competitive equity incentive program, the Compensation Committee of the board of directors (or the Committee) approved this amendment and restatement, subject to stockholder approval, to reserve an additional 19,000,000 shares for issuance under the 1996 Plan. Accordingly, the share reserve increase of 19,000,000 shares under the 1996 Plan will consist entirely of shares previously authorized for issuance under the 1998 Plan. This share increase under the 1996 Plan and the corresponding reduction in the 1998 Plan share reserve will therefore result in no net additional shares being reserved for issuance under Ameritrade stock plans.

As of September 2, 2005, there were 20,000,000 shares reserved for issuance under the 1996 Plan, and only 4,425,482 shares remained available for the future grant of awards under the 1996 Plan, a number that the board of directors believes to be insufficient to meet Ameritrade's anticipated needs. Therefore, the board of directors has unanimously adopted, subject to stockholder approval, this amendment and restatement of the 1996 Plan and the corresponding reduction in the share reserve under the 1998 Plan.

**Summary of the 1996 Plan**

The following summary is qualified in its entirety by the specific language of the 1996 Plan, a copy of which is attached to this Proxy Statement and which may also be accessed from the SEC's website at <http://www.sec.gov>. In addition, a copy of the 1996 Plan, as amended and restated, may be obtained upon written request to Ameritrade.

*General.* The purpose of the 1996 Plan is to advance the interests of Ameritrade by providing an incentive program that will enable Ameritrade to attract and retain employees upon whose judgment, interest and efforts Ameritrade's success is dependent and to provide them with an equity interest in the success of Ameritrade in order to motivate superior performance. These incentives are provided through the grant of stock options (including discounted stock options), stock appreciation rights, restricted stock awards and performance units.

*Authorized Shares.* Prior to the approval by stockholders of this amendment and restatement, 20,000,000 shares of our common stock, subject to adjustment as described below, have been reserved for the granting of awards. These shares may be currently authorized but unissued or currently held or subsequently acquired by Ameritrade as treasury shares, including shares purchased in the open market or in private transactions. If any award expires, lapses or otherwise terminates for any reason without having been exercised or settled in full, or if shares subject to forfeiture or repurchase are forfeited or repurchased by Ameritrade, any such shares that are reacquired or subject to such a terminated award will again

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become available for issuance. After the approval by stockholders of this amendment and restatement, the share reserve will be increased in an amount equal 19,000,000 shares such that the share reserve will be increased from 20,000,000 shares to 39,000,000 shares. In addition, after the approval by stockholders of this amendment and restatement, the Committee will also take such action as is necessary to amend the share reserve under the 1998 Plan to reduce its share reserve by 19,000,000 shares.

*Adjustments to Shares Subject to the 1996 Plan.* In the event of any merger, consolidation, reorganization, spinoff, stock dividend, stock split, reverse stock split, exchange or other distribution with respect to shares of Ameritrade common stock or other change in the corporate structure or capitalization affecting Ameritrade common stock, the number of shares of stock reserved, the type and number of shares of stock which are subject to outstanding awards and the terms of any such outstanding awards (including the price at which shares of stock may be issued pursuant to an outstanding award) shall be equitably adjusted by the board of directors or the Committee, in its sole discretion, to preserve the value of benefits awarded or to be awarded to participants. The Committee has previously authorized that all outstanding awards under the 1996 Plan, and the 1996 Plan share reserve (to the extent necessary to give effect to the adjustment to such outstanding awards), will be adjusted to preserve the economic value of such outstanding awards as determined immediately prior to the special dividend distribution which is discussed elsewhere in this Proxy Statement.

*Administration.* The 1996 Plan will be administered by the Committee. In the case of awards intended to qualify for the performance-based compensation exemption under Section 162(m) of the Code, administration must be by a compensation committee comprised solely of two or more outside directors within the meaning of Section 162(m). Subject to the provisions of the 1996 Plan, the Committee determines in its discretion the persons to whom and the times at which awards are granted, the types and sizes of such awards, and all of their terms and conditions. The Committee may, subject to certain limitations on the exercise of its discretion required by Section 162(m), amend, cancel, renew, or grant a new award in substitution for, any award, waive any restrictions or conditions applicable to any award, and accelerate, continue, extend or defer the vesting of any award. However, the 1996 Plan forbids, without stockholder approval, the cancellation or modification of any outstanding stock option for the purpose of reissuing an additional stock option to the option holder at a lower exercise price. The Committee will interpret the 1996 Plan and awards granted thereunder, and all determinations of the Committee will be final and binding on all persons having an interest in the 1996 Plan or any award.

*Eligibility.* Awards may only be granted to employees of Ameritrade or any present or future parent or subsidiary corporations of Ameritrade. Incentive stock options may be granted only to employees who, as of the time of grant, are employees of Ameritrade or any parent or subsidiary corporation of Ameritrade. As of August 26, 2005, Ameritrade had approximately 2,026 employees, including nine executive officers, who would be eligible for awards.

*Stock Options.* Each option granted must be evidenced by a written agreement between Ameritrade and the optionee specifying the number of shares subject to the option and the other terms and conditions of the option, consistent with the requirements of the 1996 Plan.

The exercise price of each incentive stock option may not be less than the fair market value of a share of common stock on the date of grant. However, any incentive stock option granted to a person who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of Ameritrade or any parent or subsidiary corporation of Ameritrade (a Ten percent Stockholder ) must have an exercise price equal to at least 110% of the fair market value of a share of common stock on the date of grant. The exercise price of each nonstatutory stock option will be determined by the Committee in its sole discretion at the time of grant and may be less than the current fair market value of a share of Ameritrade common stock on the date of grant, however, in no event shall such exercise price be less than 75% of such fair market value on the date of grant. Generally, the fair market value of the common stock is the closing market composite price per share on the date of grant as quoted on the Nasdaq National Market. On September 2, 2005, the closing price of Ameritrade's common stock on the Nasdaq National Market was \$20.06 per share. Ameritrade has never granted discounted stock options pursuant to the 1996 Plan.



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An option's exercise price may be paid in cash, by check, by the assignment of the proceeds of a sale with respect to some or all of the shares being acquired upon the exercise of the option (a cashless exercise), to the extent legally permitted, by tender of shares of Ameritrade common stock owned by the optionee having a fair market value not less than the exercise price, or by any combination of these. No option may be exercised unless the optionee has made adequate provision for federal, state, local and foreign taxes, if any, relating to the exercise of the option.

Options will become vested and exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by the Committee. The maximum term of any option is ten years, provided that an incentive stock option granted to a Ten percent Stockholder must have a term not exceeding five years. The Committee will specify in each written option agreement, and solely in its discretion, the period of post-termination exercise applicable to each option.

Stock options are nontransferable by the optionee other than by will or by the laws of descent and distribution, and are exercisable during the optionee's lifetime only by the optionee.

*Stock Appreciation Rights.* Each stock appreciation right must be evidenced by a written agreement between Ameritrade and the participant specifying the number of shares subject to the award and the other terms and conditions of the award, consistent with the requirements of the 1996 Plan.

A stock appreciation right gives a participant the right to receive the appreciation in the fair market value of Ameritrade common stock between the date of grant of the award and the date of its exercise. Ameritrade may pay the appreciation either in cash or in shares of common stock. The Committee may grant stock appreciation rights in tandem with a related stock option or as a freestanding award. A tandem stock appreciation right is exercisable only at the time and to the same extent that the related option is exercisable, and its exercise causes the related option to be canceled. Freestanding stock appreciation rights vest and become exercisable at the times and on the terms established by the Committee. Stock appreciation rights are generally nontransferable by the participant other than by will or by the laws of descent and distribution, and are generally exercisable during the participant's lifetime only by the participant. Ameritrade has not granted any stock appreciation rights pursuant to the 1996 Plan.

*Restricted Stock Awards.* Each restricted stock award granted must be evidenced by a written agreement between Ameritrade and the participant specifying the number of shares subject to the award and the other terms and conditions of the award, consistent with the requirements of the 1996 Plan. Restricted stock awards may be subject to vesting conditions based on such service or performance criteria as the Committee specifies, and the shares acquired may not be transferred by the participant until vested. Unless otherwise provided by the Committee, a participant will forfeit any shares of restricted stock as to which the restrictions have not lapsed prior to the participant's termination of service. Participants holding restricted stock will have the right to vote the shares and to receive any dividends paid, except that dividends or other distributions paid in shares will be subject to the same restrictions as the original award. Ameritrade has not granted any restricted stock awards pursuant to the 1996 Plan.

*Performance Units.* The Committee may grant performance units which represent a right to receive value for the units at the end of a performance period to the extent provided under the award. Each performance unit must be evidenced by a written agreement between Ameritrade and the participant specifying the terms and conditions of such award, consistent with the requirements of the 1996 Plan. The number of units earned, and the value received for the awards, will be contingent on the degree to which the performance measures established at the time of grant of the award are met. The Committee determines the terms and conditions of performance unit awards. The Ameritrade Executive Deferred Compensation Program may award performance units and such awards under that deferred compensation program will be issued from under this 1996 Plan.

*Individual Award Limitations.* The maximum aggregate number of shares of Ameritrade common stock that may be granted, subject to any award under the 1996 Plan, to any employee for any calendar year shall be 6,000,000 and the maximum aggregate cash payment to any covered employee as defined in Section 162(m) of the Code which may be made under the 1996 Plan with respect to any award for any calendar year shall be \$2,500,000.

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*Termination or Amendment.* The 1996 Plan will continue in effect until the first to occur of (1) its termination by the Committee, or (2) the date on which all shares available for issuance have been issued and all restrictions on such shares have lapsed. However, no incentive stock option may be granted on or after October 1, 2006. The Committee may terminate or amend the 1996 Plan at any time, provided that no amendment may be made without stockholder approval if the Committee deems such approval necessary for compliance with any applicable tax or securities law or other regulatory requirements, including the requirements of any stock exchange or market system on which the common stock of Ameritrade is then listed. No termination or amendment may affect any outstanding award unless expressly provided by the Committee, and, in any event, may not adversely affect an outstanding award without the consent of the participant unless necessary to comply with any applicable law, regulation or rule.

**Summary of U.S. Federal Income Tax Consequences**

The following summary is intended only as a general guide to the U.S. federal income tax consequences of participation in the 1996 Plan and does not attempt to describe all possible federal or other tax consequences of such participation or tax consequences based on particular circumstances.

*Incentive Stock Options.* An optionee recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Code. Optionees who do not dispose of their shares within two years following the date the option was granted or within one year following the exercise of the option will normally recognize a capital gain or loss equal to the difference, if any, between the sale price and the purchase price of the shares. If an optionee satisfies such holding periods upon a sale of the shares, Ameritrade will not be entitled to any deduction for federal income tax purposes. If an optionee disposes of shares within two years after the date of grant or within one year after the date of exercise (a disqualifying disposition), the difference between the fair market value of the shares on the determination date (see discussion under Nonstatutory Stock Options below) and the option exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the optionee upon the disqualifying disposition of the shares generally should be deductible by Ameritrade for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code.

The difference between the option exercise price and the fair market value of the shares on the determination date of an incentive stock option (see discussion under Nonstatutory Stock Options below) is treated as an adjustment in computing the optionee's alternative minimum taxable income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to optionees subject to the alternative minimum tax.

*Nonstatutory Stock Options.* Options not designated or qualifying as incentive stock options will be nonstatutory stock options having no special tax status. An optionee generally recognizes no taxable income as the result of the grant of such an option. Upon exercise of a nonstatutory stock option, the optionee normally recognizes ordinary income in the amount of the difference between the option exercise price and the fair market value of the shares on the determination date (as defined below). If the optionee is an employee, such ordinary income generally is subject to withholding of income and employment taxes. The determination date is the date on which the option is exercised unless the shares are subject to a substantial risk of forfeiture (as in the case where an optionee is permitted to exercise an unvested option and receive unvested shares which, until they vest, are subject to Ameritrade's right to repurchase them at the original exercise price upon the optionee's termination of service) and are not transferable, in which case the determination date is the earlier of (1) the date on which the shares become transferable or (2) the date on which the shares are no longer subject to a substantial risk of forfeiture. If the

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determination date is after the exercise date, the optionee may elect, pursuant to Section 83(b) of the Code, to have the exercise date be the determination date by filing an election with the Internal Revenue Service no later than 30 days after the date the option is exercised. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value on the determination date, will be taxed as capital gain or loss. No tax deduction is available to Ameritrade with respect to the grant of a nonstatutory stock option or the sale of the stock acquired pursuant to such grant. Ameritrade generally should be entitled to a deduction equal to the amount of ordinary income recognized by the optionee as a result of the exercise of a nonstatutory stock option, except to the extent such deduction is limited by applicable provisions of the Code.

*Stock Appreciation Rights.* In general, no taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares of our common stock received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

*Restricted Stock Awards.* A participant acquiring restricted stock generally will recognize ordinary income equal to the fair market value of the shares on the determination date (as defined above under Nonstatutory Stock Options ). If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. If the determination date is after the date on which the participant acquires the shares, the participant may elect, pursuant to Section 83(b) of the Code, to have the date of acquisition be the determination date by filing an election with the Internal Revenue Service no later than 30 days after the date the shares are acquired. Upon the sale of shares acquired pursuant to a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value on the determination date, will be taxed as capital gain or loss. Ameritrade generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

*Performance Units Awards.* A participant generally will recognize no income upon the grant of a performance units award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of receipt in an amount equal to the cash received and the fair market value of any cash or nonrestricted shares received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. If the participant receives shares of stock, the participant generally will be taxed in the same manner as described above (see discussion under Restricted Stock Awards ). Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value on the determination date (as defined above under Nonstatutory Stock Options ), will be taxed as capital gain or loss. Ameritrade generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

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*Options Granted to Certain Individuals and Groups.* The number of options or other awards (if any) that an individual may receive under the 1996 Plan is in the discretion of the Committee and therefore cannot be determined in advance. The following table sets forth the total number of shares of the Company's common stock subject to options or other awards (if any) granted under the 1996 Plan to the listed persons and groups since the beginning of fiscal year 2004 through June 24, 2005 and the average per share exercise price of the options.

**Options and Restricted Stock Granted to Certain Individuals and Groups  
From the Beginning of Fiscal Year 2004 through June 24, 2005**

Name and Position	Number of Options Granted	Weighted Average Per Share Exercise Price of Options(1)	Number of Shares of Restricted Stock Granted
Joseph H. Moglia Chief Executive Officer	0		0
J. Joe Ricketts Chairman and Founder	750,000	\$ 10.90	0
John R. MacDonald Executive Vice President, Chief Financial Officer, Chief Administrative Officer and Treasurer	0		0
J. Peter Ricketts(2) Vice Chairman	0		0
Michael R. Feigeles(3)	0		0
Asiff S. Hirji Executive Vice President, Chief Operating Officer and Chief Information Officer	0		0
All current executive officers, as a group	750,000	\$ 10.90	0
All current directors who are not executive officers, as a group (7 persons)	0		0
All employees, including all current officers who are not executive officers, as a group	186,500	\$ 12.63	0

- (1) All options were granted with an exercise price equal to 100% of the fair market value on the date of grant.
- (2) Mr. Ricketts resigned his positions as Executive Vice President, Chief Operating Officer and Corporate Secretary of Ameritrade in August 2005.
- (3) Mr. Feigeles resigned his position as Executive Vice President in March 2005.

**Required Vote and Board of Directors Recommendation**

The affirmative vote of the holders of a majority of the shares of Ameritrade common stock present in person or represented by proxy and voting on the matter is required to approve this amendment and restatement of the 1996 Plan. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have no

effect on the vote. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum but will not have any effect on the outcome of the proposal.

The board of directors believes that the amendment and restatement of the 1996 Plan is in the best interests of Ameritrade and its stockholders for the reasons stated above. **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE 1996 PLAN.**

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**PROPOSAL NO. 4  
APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE  
1996 DIRECTORS INCENTIVE PLAN**

At the special meeting, the stockholders will be asked to approve an amendment and restatement of the Ameritrade Holding Corporation 1996 Directors Incentive Plan. We refer to this plan as the Director Plan in this proxy statement. The board of directors originally adopted the Director Plan effective as of March 4, 1997, amended and restated the Director Plan as of September 9, 2002 and again as of February 12, 2003.

The board of directors believes that Ameritrade must offer a competitive equity incentive program if it is to continue to successfully attract and retain as members of the board of directors individuals who are not employees of Ameritrade or of any subsidiary or parent of Ameritrade ( Outside Directors ) whose abilities, experience and judgment can contribute to the continued progress of Ameritrade and its subsidiaries and to facilitate the Outside Directors ability to acquire a proprietary interest in Ameritrade. The board of directors expects that the Director Plan will continue to be an important factor in attracting, retaining and rewarding the high caliber Outside Directors.

As described above in Proposal No. 3, the board of directors has determined that in order to ensure that Ameritrade has a reasonable number of shares available to grant incentive awards under the Director Plan that the share reserve under the 1998 Plan will be reduced by 20,000,000 shares, contingent upon stockholder approval of the share reserve increases to the 1996 Plan, as requested in Proposal No. 3, and the Director Plan, as requested in this Proposal No. 4.

Specifically, in order to enable Ameritrade to continue to offer a competitive equity incentive program to its Outside Directors, the Committee approved this amendment and restatement, subject to stockholder approval, to reserve an additional 1,000,000 shares for issuance under the Director Plan. Accordingly, the share reserve increase of 1,000,000 shares under the Director Plan will consist entirely of shares previously authorized for issuance under the 1998 Plan. This share increase under the Director Plan and the corresponding reduction in the 1998 Plan share reserve will therefore result in no net additional shares being reserved for issuance under Ameritrade stock plans.

As of September 2, 2005, there were 1,460,000 shares reserved for issuance under the plan, and only 561,241 shares remained available for the future grant of awards under the Director Plan, a number that the board of directors believed to be insufficient to meet Ameritrade s anticipated needs particularly in light of the planned increase of the size of the board of directors from nine members to twelve members. Therefore, the board of directors has unanimously adopted, subject to stockholder approval, this amendment and restatement of the Director Plan and the corresponding reduction in the share reserve under the 1998 Plan.

**Summary of the Director Plan**

The following summary is qualified in its entirety by the specific language of the Director Plan, a copy of which is attached to this Proxy Statement and which may also be accessed from the SEC s home page ([www.sec.gov](http://www.sec.gov)). In addition, a copy of the Director Plan, as amended and restated, may be obtained upon written request to Ameritrade.

*General.* The Director Plan provides to Outside Directors the (1) grant of nonstatutory stock options upon such Outside Directors initial election to the board of directors, (2) grant of restricted stock upon such Outside Directors initial election to the board of directors, (3) discretionary grant of nonstatutory stock options which may be granted other than upon initial election to the board of directors, (4) grant of cash or stock based retainer awards, in such amounts as determined in the sole discretion of the board of directors, and (5) discretionary ability to defer cash director retainers and other fees into either stock based director fee awards or a deferred cash account.

*Authorized Shares.* Prior to this amendment and restatement, 1,460,000 shares of our common stock have been reserved for the granting of awards. If any award expires, lapses or otherwise terminates for any reason without having been exercised or settled in full, or if shares subject to forfeiture or repurchase are forfeited or repurchased by Ameritrade, any such shares that are reacquired or subject to such a

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terminated award will again become available for issuance. After the approval of stockholders of this amendment and restatement, the share reserve shall be increased in an amount equal to 1,000,000 shares such that the share reserve shall be increased from 1,460,000 shares to 2,460,000 shares. In addition, after the approval of stockholders of this amendment and restatement, the Committee will also take such action as is necessary to amend the share reserve under the 1998 Plan to reduce its share reserve by 1,000,000 shares.

*Adjustments to Shares Subject to the Director Plan.* In the event of any merger, consolidation, reorganization, spinoff, stock dividend, stock split, reverse stock split, exchange or other distribution with respect to shares of stock or other change in the corporate structure or capitalization affecting Ameritrade common stock, the number of shares of stock reserved, the type and number of shares of stock which are subject to outstanding awards and the terms of any such outstanding awards (including the price at which shares of stock may be issued pursuant to an outstanding award) shall be equitably adjusted by the Committee, in its sole discretion, to preserve the value of benefits awarded or to be awarded to Outside Directors. The Committee has previously authorized that all outstanding awards under the Director Plan, and the Director Plan share reserve (to the extent necessary to reflect the adjustment to such outstanding awards), will be adjusted to preserve the value of such outstanding awards as determined immediately prior to the special dividend distribution which is discussed elsewhere in this Proxy Statement.

*Administration.* The Director Plan will be administered by the board of directors to the extent provided by the terms of the Director Plan and by the Committee for all other purposes. The Director Plan will be administered in a manner intended to permit awards to be exempt from Section 16(b) of the Securities Exchange Act of 1934 in accordance with Rule 16b-3 thereunder. The Committee will approve forms of award agreements for use under the Director Plan, determine the terms and conditions of awards consistent with the requirements of the Director Plan, and construe and interpret the terms of the Director Plan and awards granted under it.

*Eligibility.* Only members of the board of directors of Ameritrade who are Outside Directors at the time of grant are eligible to participate in the Director Plan. Currently, Ameritrade has seven Outside Directors.

*Initial Grant of Stock Options.* Stock options will be granted to each Outside Director upon his or her initial election to the board of directors. The number of shares subject to this initial stock option will be determined by the Chairman of the Board of directors and approved by the board of directors.

*Discretionary Grant of Stock Options.* Outside Directors may also be awarded stock options other than upon their initial election to the board of directors as determined from time to time by the members of the board of directors.

*Terms and Conditions of Stock Options.* Each stock option will be evidenced by a written agreement specifying the number of shares subject to the option and the other terms and conditions of the option, consistent with the provisions of the Director Plan.

The per-share exercise price for each option will be equal to the fair market value of a share of our common stock on the date of grant. Generally, the fair market value of the common stock is the closing composite price per share on the date of grant as quoted on the Nasdaq National Market. The closing price of our common stock as reported on the Nasdaq National Market on September 2, 2005 was \$20.06 per share.

An option's exercise price may be paid in cash, by check or by tender of shares of common stock owned by the Outside Director having a fair market value not less than the exercise price, or by any combination of these.

Stock options will generally become vested and exercisable in three equal annual installments beginning on the first anniversary of the date of grant, subject to the Outside Director's continuous service on our board of directors. Notwithstanding an Outside Director's termination of service on the board of directors, stock options shall continue to vest over a period of three years unless the Outside Director was terminated for cause. If an Outside Director's service as a director terminates for cause, stock options shall continue to vest for a period of one year following such termination. Unless earlier terminated under the

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terms of the option agreement, each option will have an expiration date which will be the earlier of the 10-year anniversary of the date of grant or the one-year anniversary of the date on which the Outside Director's service as a director terminates for cause.

Stock options are nontransferable by the Outside Director other than by will or by the laws of descent and distribution, and are exercisable during the Outside Director's lifetime only by the Outside Director.

*Initial Grant of Restricted Stock.* An award of restricted stock will be granted to each Outside Director upon his or her initial election to the board of directors. The number of shares subject to this initial restricted stock award will be determined by the Chairman of the board of directors and approved by the board of directors, however, the fair market value of such award shall equal approximately \$20,000 or such other amount as determined by the board of directors from time to time.

*Terms and Conditions of Restricted Stock.* Each award of restricted stock will be evidenced by a written agreement specifying the number of shares subject to the award and the other terms and conditions of the award, consistent with the provisions of the Director Plan.

An award of restricted stock will generally become vested in three equal annual installments beginning on the first anniversary of the date of grant, subject to the Outside Director's continuous service on our board of directors. All shares of restricted stock which are not vested on the earlier of the 10-year anniversary of the date of grant or the one-year anniversary of the date on which the Outside Director's service as a director terminates for cause shall be forfeited.

Restricted stock may not be sold or otherwise transferred or pledged until the stock has vested. Outside Directors holding restricted stock will have the right to vote the shares and to receive all dividends and other distributions, except that any dividends or other distributions paid in shares will be subject to the same restrictions as the original award. An Outside Director may elect, in accordance with the terms of the Director Plan, to defer receipt of an award of restricted stock. If any Outside Director elects to defer receipt of any restricted stock, the deferred portion of such award will be deemed an award of deferred stock units (as discussed below) and the Outside Director will not be entitled to receive any other compensation, whether in cash or common stock, from Ameritrade in lieu of such deferral.

*Director Fee Awards.* Ameritrade may award Outside Directors contributions to the Director Plan in the form of cash retainers or stock award retainers in such amounts as determined from time to time by the board of directors. In addition to these board of directors determined retainer contributions, Outside Directors may also elect whether to receive their retainers and other fees in cash or in shares of Ameritrade common stock and may elect to defer receipt of all or a portion of such retainer and other fees otherwise payable to the Outside Director, including those amounts that would otherwise be payable to the Outside Director in the form of Ameritrade common stock. Amounts deferred pursuant to an Outside Director's election are credited to a bookkeeping account which consists of a Cash Subaccount reflecting amounts that would otherwise have been payable to the Outside Director in cash and a Stock Subaccount reflecting amounts that would otherwise have been payable to the Outside Director in Ameritrade common stock. Outside Director compensation not deferred will be paid in cash in accordance with Ameritrade's normal payment procedures.

As of the first day of each fiscal quarter, the Cash Subaccount is adjusted to reflect contributions and distributions during the preceding fiscal quarter and is credited with interest computed at the prime rate as reported by the Wall Street Journal for that date (or, if that day is not a business day, the next preceding business day). The Stock Subaccount is credited with stock units as of each day that a deferred amount would otherwise have been payable to the Outside Director in Ameritrade common stock, is charged with stock units as of each day on which amounts are distributed from the Stock Subaccount and is credited with stock units as of each record date to reflect dividends paid on the common stock. A stock unit is an unfunded bookkeeping entry representing a right to receive one share of our common stock in accordance with the terms and conditions of the Director Plan. Outside Directors are not required to pay any additional cash consideration in connection with the settlement of a stock unit award.

Deferred amounts are payable to Outside Directors as of a distribution date elected by the Outside Director at the time of deferral. If no distribution date is specified, payments begin as of the first business



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day of January of the year following the date on which the Outside Director ceases to be a member of the board of directors of Ameritrade for any reason. Distributions of deferred amounts can be made in ten annual installments commencing on the distribution date elected. An Outside Director may also elect to have payments made in a single lump sum or in any number of annual payments not exceeding 10. If an Outside Director dies prior to the full payment of his or her deferral account, the balance will be paid in a lump sum to a beneficiary designated by the Outside Director.

Stock unit awards may be either (1) fully vested upon grant if such award results from the Outside Director's deferral of compensation or (2) subject to such vesting terms and conditions, as determined in the sole discretion of the board of directors, if an Ameritrade contribution, and every stock unit will be settled by distribution to the Outside Director of a number of whole shares of common stock equal to the number of stock units subject to the award. A holder of stock unit has no voting rights or other rights as a stockholder until shares of common stock are issued to the Outside Director in settlement of the stock unit. Prior to settlement, no stock units award may be assigned or transferred other than by will or the laws of descent and distribution.

*Change in Control.* The Director Plan defines a Change in Control of Ameritrade as the occurrence of any of the following: (1) any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becomes the beneficial owner (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of Ameritrade representing 30% or more of the total voting power of Ameritrade; or (2) any tender offer (for which a filing has been made with the SEC) is made for the stock of Ameritrade, which has not been negotiated and approved by the board of directors; or (3) individuals who were nominees of the board of directors for election as directors of Ameritrade immediately prior to a meeting of the stockholders involving a contest for the election of directors shall not constitute a majority of the board of directors following the election.

If a Change in Control occurs, all stock options, restricted stock and deferred stock units will be 100% vested and settled, as applicable, prior to the effective date of any Change in Control.

*Termination or Amendment.* The Director Plan will continue in effect until the earlier of its termination by the board of directors or the date on which all of the shares of common stock available for issuance have been issued and all restrictions on such shares have lapsed. The board of directors may terminate or amend the Director Plan at any time, provided that no amendment may be made without stockholder approval if the board of directors deems such approval necessary for compliance with any applicable tax or securities law or other regulatory requirements, including the requirements of any stock exchange or market system on which the common stock of Ameritrade is then listed. No termination or amendment may affect any outstanding award unless expressly provided by the board of directors, and, in any event, may not adversely affect an outstanding award without the consent of the Outside Director unless necessary to comply with any applicable law.

**Summary of U.S. Federal Income Tax Consequences**

The following summary is intended only as a general guide to the U.S. federal income tax consequences of participation in the Director Plan and does not attempt to describe all possible federal or other tax consequences of such participation or tax consequences based on particular circumstances.

*Nonstatutory Stock Options.* All stock options shall be nonstatutory stock options having no special tax status. An Outside Director generally recognizes no taxable income upon receipt of such an option. Upon exercising a nonstatutory stock option, the Outside Director normally recognizes ordinary income equal to the difference between the exercise price paid and the fair market value of the shares on the date when the option is exercised or such later date as the shares become vested and free of any restrictions on transfer (the later of such dates being referred to as the determination date). Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the determination date, will be taxed as capital gain or loss. Ameritrade generally should be entitled to a tax deduction equal to the amount of ordinary income recognized by the Outside Director as a result of the exercise of a nonstatutory stock option, except to the extent such deduction is limited by applicable provisions of the Code.

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*Restricted Stock.* Acquisitions of restricted stock receive tax treatment that is similar to that of exercises of nonstatutory stock options. An Outside Director acquiring restricted stock normally recognizes ordinary income equal to the difference between the amount, if any, the Outside Director paid for the restricted stock and the fair market value of the shares on the determination date. The Outside Director may elect, pursuant to Section 83(b) of the Code, to treat the acquisition date as the determination date by filing an election with the Internal Revenue Service. Upon the sale of restricted stock, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the determination date, will be taxed as capital gain or loss. Ameritrade generally should be entitled to a tax deduction equal to the amount of ordinary income recognized by the Outside Director as a result of the acquisition of restricted stock, except to the extent such deduction is limited by applicable provisions of the Code.

*Director Fee Awards.* An Outside Director generally will recognize no income upon the grant of a stock unit award or deferred cash award. Upon the settlement of such awards, the Outside Directors normally will recognize ordinary income in the year of settlement in an amount equal to the cash received and the fair market value of any unrestricted shares received. Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value on the determination date, will be taxed as capital gain or loss. Ameritrade generally should be entitled to a deduction equal to the amount of ordinary income recognized by the Outside Director on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

**Table of Contents****Historical Plan Benefits**

*Awards Granted to Outside Directors.* The number of options or other awards (if any) that an Outside Director may receive under the Director Plan is in the discretion of the Committee and therefore cannot be determined in advance. The following table sets forth the total number of shares of the Company's common stock subject to options or other awards (if any) granted under the Director Plan to the listed persons and groups since the beginning of fiscal year 2004 through June 24, 2005 and the average per share exercise price of the options.

**Options and Restricted Stock Granted to Certain Individuals and Groups  
From the Beginning of Fiscal Year 2004 through June 24, 2005**

Name and Position	Number of Options Granted	Weighted Average Per Share Exercise Price of Options(1)	Number of Shares of Restricted Stock Granted
Joseph H. Moglia Chief Executive Officer	0		0
J. Joe Ricketts Chairman and Founder	0		0
John R. MacDonald Executive Vice President, Chief Financial Officer, Chief Administrative Officer and Treasurer	0		0
J. Peter Ricketts(2) Vice Chairman	0		0
Michael R. Feigeles(3)	0		0
Asiff S. Hirji Executive Vice President, Chief Operating Officer and Chief Information Officer	0		0
All current executive officers, as a group	0		0
All current directors who are not executive officers, as a group (7 persons)	10,000	\$ 11.27	1,775
All employees, including all current officers who are not executive officers, as a group	0		0

- (1) All options were granted with an exercise price equal to 100% of the fair market value on the date of grant.
- (2) Mr. Ricketts resigned his positions as Executive Vice President, Chief Operating Officer and Corporate Secretary of Ameritrade in August 2005.
- (3) Mr. Feigeles resigned his position as Executive Vice President in March 2005.

**Required Vote and Board of Directors Recommendation**

The affirmative vote of the holders of a majority of the shares of Ameritrade common stock present in person or represented by proxy and voting on the matter is required to approve this amendment and restatement of the Director Plan. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have no

effect on the vote. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum but will not have any effect on the outcome of the proposal.

The board of directors believes that the amendment and restatement of the Director Plan is in the best interests of Ameritrade and its stockholders for the reasons stated above. **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE DIRECTOR PLAN.**

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**PROPOSAL NO. 5  
ADJOURNMENT OF THE SPECIAL MEETING**

In the event that there are not sufficient votes to constitute a quorum or approve the Ameritrade Stock Issuance, the Post-Transaction Certificate of Incorporation or the related sub-proposals at the time of the special meeting, these proposals could not be approved unless the meeting was adjourned to a later date or dates in order to permit further solicitation of proxies. Under Ameritrade's bylaws, written notice of an adjourned meeting need not be given to stockholders if the date, place and time of the adjourned meeting are announced at the special meeting before adjournment and a new record date is not fixed for the adjourned meeting, provided the adjournment is for not more than 30 days.

The affirmative vote of the holders of a majority of shares of Ameritrade common stock present in person or represented by proxy and voting on the matter at the special meeting is required to approve the proposal to adjourn the special meeting if necessary to permit further solicitation of proxies on any of the foregoing proposals if there are not sufficient votes at the time of the special meeting to approve the proposals relating to the issuance of Ameritrade common stock to TD, and/or one or more of TD's affiliates, and the amendment and restatement of our certificate of incorporation (or any of the related sub-proposals).

In order to allow proxies that have been received by Ameritrade at the time of the special meeting to be voted for an adjournment, if necessary, Ameritrade has submitted the question of adjournment to its stockholders as a separate matter for their consideration. **THE BOARD OF DIRECTORS OF AMERITRADE UNANIMOUSLY RECOMMENDS A VOTE *FOR* THE ADJOURNMENT PROPOSAL.**

**Table of Contents****TD WATERHOUSE BUSINESS DESCRIPTION**

TD Waterhouse focuses on the securities brokerage needs of independent-minded investors who are looking for an alternative to higher-priced brokers. TD Waterhouse specializes in providing financial services through a broad offering of brokerage, mutual fund, banking and other consumer financial products and services. Customers are able to utilize TD Waterhouse's services through a variety of delivery channels, including the Internet and other electronic channels, as well as its branch network. TD Waterhouse had approximately 2.9 million active customer accounts (active is defined as having funds, a security or activity in the most recent month) as of April 30, 2005 in the U.S. and Canada, of which 2.1 million are in the U.S.

Through its U.S. broker-dealer subsidiary, TD Waterhouse Investor Services, Inc., TD Waterhouse offers a comprehensive online platform for self-directed investors, offering a range of investment products, retirement and college investment vehicles, cash management tools and online services. TD Waterhouse also offers customers, who may want more investment guidance, the personal touch of over 140 nationwide branches with professional investment consultants available to provide guidance and support. Complementing its branch network, TD Waterhouse also has three investment centers that offer product expertise on various investment vehicles from alternative investments and mutual funds to fixed income products. For those investors who seek discretionary advice on their investment portfolios, TD Waterhouse's AdvisorDirect program can refer customers to a nationwide network of independent financial advisors. In addition, TD Waterhouse, through its Institutional Services Division, provides comprehensive brokerage and other services to independent financial advisors and their customers. TD Waterhouse Institutional Services has serviced advisors for over 10 years, currently providing approximately 2,600 advisors and their customers with world-class service, cutting-edge technology and a comprehensive offering of products and services. The Institutional Services Division offers a range of products and services that have been individualized to meet the needs of financial advisors, including block trading and trade allocation, management fee processing, customer account information downloads, and consolidated monthly customer account statements.

TD Waterhouse's clearing firm, National Investor Services Corp., a U.S. broker-dealer, performs clearing services for all customer transactions. These services include providing custodial services for securities and cash held in customer accounts, settling and transferring payment for securities on the settlement date, issuing trade confirmations and performing related clearing functions. TD Waterhouse's subsidiary, TD Waterhouse Capital Markets, Inc., operates as a market maker in over-the-counter equity securities, primarily focusing on those securities traded on The Nasdaq Stock Market and the OTC Bulletin Board.

Through TD Waterhouse Bank, N.A., TD Waterhouse provides its customers access to a variety of banking services, including check writing and debit card access to funds in their brokerage accounts, as well as deposit products, certificates of deposit and credit cards.

TD Waterhouse's Canadian subsidiary, TD Waterhouse Canada Inc., a member of the Investment Dealers Association of Canada, is Canada's leading provider of discount brokerage services, affording customers access to a full range of investment information, guidance and other resources through a variety of delivery channels.

TD Waterhouse Bank, N.A. and TD Waterhouse Canada Inc., will not be acquired by Ameritrade as part of the transaction.

TD Waterhouse's marketing strategy has remained focused on building brand awareness, attracting new customers, and retaining and cross-selling to existing customers value-added products and services. The firm pursues these goals through a combination of marketing through its branch office network, media, advertising, marketing on the firm's website, public relations and co-marketing programs.

***Products and Services***

TD Waterhouse offers a broad range of products and services to meet its customers' varying investment and financial needs, as well as access to extensive investment news and information. The firm's products and services are tailored to meet the needs of self-directed individual investors and independent fee-based investment advisors.

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*Brokerage Services for Individual Investors.* TD Waterhouse customers are able to buy and sell all U.S. and major foreign exchange-listed, Nasdaq-listed and other equity securities, options, mutual funds, unit investment trusts, variable annuities and fixed income investments, including U.S. Treasuries, zero-coupon bonds, listed and over-the-counter corporate bonds, municipal bonds, GNMA's and CDs. The firm offers both margin accounts and cash accounts to its customers.

*Mutual Funds.* Through TD Waterhouse's extensive mutual fund network, customers have access to one of the most comprehensive mutual fund selections available to individual investors—over 10,000 from more than 400 well-respected fund families, including more than 1,300 funds with no transaction fees. Self-directed investors are able to select from among the wide array of fund choices by speaking with a branch investment consultant or using the firm's online mutual fund screener. Customers seeking mutual fund advice may also utilize the services of one of TD Waterhouse's investment centers.

*Retirement Services.* TD Waterhouse offers a variety of no-fee, no-minimum balance retirement plan products for both individuals and businesses. These products include various IRAs for individuals, as well as SEP plans, profit sharing plans, 401(k) plans and other retirement plans for businesses and self-employed individuals. Customers are afforded access to the firm's Retirement Plans customer service group, as well as to a variety of online planning tools to assist in determining retirement needs.

*Tools and Resources.* TD Waterhouse provides access to a broad spectrum of free investment information and research tools to assist self-directed investors with their investment decisions. These include printed research materials, quote information, charting, portfolio tracking and stock and mutual fund performance and screening tools. The firm has also established alliances with leading online content providers to facilitate its online investors' ability to make informed investment decisions.

TD Waterhouse is headquartered at 100 Wall Street, New York, New York.

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**Report of Independent Auditors**

To the Board of Directors  
and Stockholders of  
TD Waterhouse Group, Inc.:

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of TD Waterhouse Group, Inc. and its subsidiaries at October 31, 2004 and October 31, 2003, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, the Company has restated its consolidated financial statements as of October 31, 2003 and October 31, 2002 and for the years then ended.

PricewaterhouseCoopers LLP  
New York, New York

August 18, 2005, except for the fifth, sixth, and seventh paragraphs of Note 3,  
as to which the date is September 10, 2005

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**TD WATERHOUSE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**At October 31**

	2004	2003
	(Restated)	
	(In thousands of dollars, except share data)	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 222,716	\$ 420,825
Investment securities		
Held to maturity (market value of \$2,830,814 and \$1,249,960)	2,831,595	1,249,852
Available for sale, at market value	6,940,966	5,335,376
Trading	1,873,353	1,573,351
Restricted investment securities, at cost	32,695	22,610
Receivables from customers	5,069,332	4,438,506
Securities purchased under agreements to resell	1,515,855	1,492,896
Receivables from brokers and dealers	79,140	67,726
Deposits paid for securities borrowed	91,845	82,172
Deposits with clearing organizations	54,872	66,627
Loans, net of allowance for loan losses of \$600 and \$1,702	24,479	41,805
Receivable from affiliates	8,526	
Furniture, equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$98,055 and \$98,238	123,933	118,315
Capitalized software, net of accumulated amortization of \$67,263 and \$52,660	30,637	29,649
Intangible assets	12,409	14,827
Goodwill	859,289	852,978
Deferred tax assets	34,569	17,600
Other assets	112,246	114,594
<b>Total assets</b>	<b>\$ 19,918,457</b>	<b>\$ 15,939,709</b>
<b>LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities</b>		
Bank loans and overdrafts	\$ 43,309	\$ 49,762
Interest bearing deposits	8,631,570	5,807,827
Deposits received for securities loaned	1,081,561	909,460
Securities sold, not yet purchased	5,136	3,588
Payables to brokers and dealers	176,119	186,243
Payables to customers	5,391,422	5,337,499
Swap contracts with affiliate, at fair value	726,837	528,962
Payables to affiliates	544,151	64,681
Non interest bearing deposits	351	206
Taxes payable	27,144	19,153

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Deferred tax liabilities	75,583	42,039
Accrued compensation and other liabilities	229,541	207,641
Liabilities qualifying as risk based capital		
Subordinated debt with affiliate	30,000	30,000
<b>Total liabilities</b>	<b>16,962,724</b>	<b>13,187,061</b>
Minority interest	61,277	51,813
Commitments and contingent liabilities (Note 15)		
<b>Stockholders Equity</b>		
Preferred stock of subsidiary, Cdn\$1,000 par value, unlimited shares authorized, 17,100 shares issued and outstanding	11,829	11,829
Common stock, Class A, \$0.01 par value, 355 million shares authorized, 352,944,959 shares issued and outstanding	3,530	3,530
Common stock, Class B, \$0.01 par value, 18 million shares authorized, 17,724,648 shares issued and outstanding	177	177
Additional paid-in capital	1,785,631	1,784,032
Retained earnings	1,024,776	867,122
Accumulated other comprehensive income	68,513	34,145
<b>Total stockholders equity</b>	<b>2,894,456</b>	<b>2,700,835</b>
<b>Total liabilities, minority interest and stockholders equity</b>	<b>\$ 19,918,457</b>	<b>\$ 15,939,709</b>

The accompanying notes are an integral part of these consolidated financial statements.

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**TD WATERHOUSE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**For the Year Ended October 31**

	2004	2003	2002
		(Restated)	(Restated)
	(In thousands of dollars)		
<b>REVENUES</b>			
Interest income			
Margin loans	\$ 209,047	\$ 153,901	\$ 153,083
Investment securities	195,219	163,707	164,258
Other	73,856	67,206	55,271
<b>Total interest income</b>	478,122	384,814	372,612
Interest expense			
Interest bearing deposits	70,367	34,253	54,082
Deposits received for securities loaned	9,381	11,533	10,335
Customer deposits	43,248	55,574	31,852
Bank loans and overdrafts	275	134	143
Subordinated debt	1,992	1,992	32
<b>Total interest expense</b>	125,263	103,486	96,444
<b>Net interest income</b>	352,859	281,328	276,168
Non-interest income			
Commissions and fees	681,944	653,154	573,638
Gain on principal transactions	33,973	21,116	
Loss on sale of available for sale securities	(231)	(840)	(1,425)
Mutual fund and related revenue	202,735	144,713	113,734
Fees from affiliates	48,217	29,976	19,201
Other	76,987	61,017	151,982
<b>Total non-interest income</b>	1,043,625	909,136	857,130
<b>Net revenue</b>	1,396,484	1,190,464	1,133,298
<b>OPERATING EXPENSES</b>			
Employee compensation and benefits	527,229	456,597	372,557
Floor brokerage, exchange and clearing fees	104,596	86,472	53,125
Occupancy	68,448	71,832	66,650
Advertising and promotion	91,293	66,788	91,123
Depreciation and amortization	56,231	55,743	57,399
Equipment	39,012	37,782	46,992
Communications and data processing	57,543	77,356	82,529
Professional fees	58,294	42,973	41,902
Stationery and postage	37,045	33,789	37,653

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Other	103,778	101,755	190,171
<b>Total operating expenses</b>	<b>1,143,469</b>	<b>1,031,087</b>	<b>1,040,101</b>
Income before income taxes and minority interest	253,015	159,377	93,197
Income tax provision	85,793	53,881	44,492
<b>Income after taxes before minority interest</b>	<b>167,222</b>	<b>105,496</b>	<b>48,705</b>
Minority interest in subsidiary	9,150	5,828	1,386
<b>Income from continuing operations</b>	<b>158,072</b>	<b>99,668</b>	<b>47,319</b>
<b>Discontinued operations</b>			
Loss from discontinued operations (including loss on disposal of \$61,650 for the year ended October 31, 2003)		(64,661)	(16,896)
Income tax benefit		(9,751)	(5,010)
Loss from discontinued operations		(54,910)	(11,886)
<b>Net income</b>	<b>\$ 158,072</b>	<b>\$ 44,758</b>	<b>\$ 35,433</b>

The accompanying notes are an integral part of these consolidated financial statements.

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**TD WATERHOUSE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(In thousands of dollars, except share data)

	Preferred Stock of Subsidiary	Preferred Stock of Subsidiary	Common Stock Class A Shares	Common Stock Class A Amount	Common Stock Class B Shares	Common Stock Class B Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Comprehensive (Loss)/ Income	Total Equity
Balance at December 31, 2013	17,100	\$ 11,829	2,002	\$	102	\$	\$ 1,772,226	\$ 843,789	\$(22,719)	\$ 2,605
Issuance of new common stock including the redemption of Common Shares of TD Waterhouse Group			(2,002)		(102)					
Issuance of new common shares of TD Waterhouse Group			352,944,959	3,530	17,724,648	177	(3,707)			
Change in equity re: Contributions							1,819			1,819
Change in equity re: Share repurchase and cancellation of shares							(643)			(643)
Change in equity re: Sale of ventures and book value							(7,993)			(7,993)
Change in equity re: Share repurchase and cancellation of shares							9,043			9,043
Change in equity re: Share repurchase and cancellation of shares								(56,500)		(56,500)



net of of \$1,095 lation tment g during ear, net of of 04	\$ 45,323									45,323	45
prehensive ne	\$ 88,216										
ce at er 31, as ed 3)		17,100	\$ 11,829	352,944,959	\$ 3,530	17,724,648	\$ 177	\$ 1,784,032	\$ 867,122	\$ 34,145	\$ 2,700
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ase in re ed tribution for											
ensation end on red stock osidiary								1,022			1
prehensive ne ncome	\$ 158,072									158,072	158
change in ciation on tment ities, ble for net of of \$4,107	6,994									6,994	6
lation tment g during ear, net of of 77	\$ 27,374									27,374	27
prehensive ne	\$ 192,440										

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17,100 \$ 11,829 352,944,959 \$ 3,530 17,724,648 \$ 177 \$ 1,785,631 \$ 1,024,776 \$ 68,513 \$ 2,894

The accompanying notes are an integral part of these consolidated financial statements.

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**TD WATERHOUSE GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Year Ended October 31**

	2004	2003	2002
		(Restated)	(Restated)
	(In thousands of dollars)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 158,072	\$ 44,758	\$ 35,433
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	56,231	55,743	59,152
Minority interest in earnings of consolidated subsidiary	9,150	5,828	1,386
Provision for loan losses	(346)	1,141	1,176
Allowance for doubtful customer accounts	1,915	1,969	670
Write down on investments		83,096	13,599
Net accretion of discount on investment securities held to maturity	(18,350)	(16,549)	(22,173)
Net amortization of discount on investment securities available for sale	275	166	363
Net increase in interest payable on swaps	2,397	2,787	3,267
Deemed contribution for stock compensation	1,022	750	
Goodwill impairment		11,104	9,212
(Increases)/ decreases in operating assets:			
Cash segregated under federal regulations		200,000	(200,000)
Trading investment securities	(164,978)	(888,401)	161,126
Securities purchased under agreements to resell	92,212	623,673	(637,655)
Receivables from customers	(509,824)	(1,322,870)	586,225
Receivables from brokers and dealers	(7,517)	70,702	(104,676)
Deposits paid for securities borrowed	(9,673)	53,802	(108,910)
Deposits with clearing organizations	12,501	(26,134)	15,944
Receivables from affiliates	(7,904)		12,118
Current tax receivable		11,573	(7,608)
Deferred tax assets	(16,392)	10,955	(4,935)
Other assets	1,174	1,927	168
Increases/ (decreases) in operating liabilities:			
Deposits received for securities loaned	172,101	836,486	(206,119)
Securities sold, not yet purchased	1,296	(5,346)	6,312
Payables to brokers and dealers	(17,508)	(20,690)	207,342
Payables to customers	(227,526)	547,178	630,417
Payables to affiliates	438,252	(101,405)	7,838
Taxes payable	6,621	(5,196)	14,224

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Deferred taxes payable	12,589	1,321	8,967
Accrued compensation and other liabilities	18,417	29,696	24,444
<b>Cash provided by operating activities</b>	<b>4,207</b>	<b>208,064</b>	<b>507,307</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of investment securities held to maturity	(159,254,047)	(125,872,530)	(40,489,658)
Proceeds from maturities of investment securities held to maturity	157,690,654	126,259,378	40,392,970
Purchase of investment securities available for sale	(4,450,315)	(3,298,193)	(894,349)
Proceeds from maturities of investment securities available for sale	3,035,793	2,336,712	1,144,995
Proceeds from sale of investment securities available for sale	16,935	15,165	24,215
Purchase of restricted securities	(10,085)	(7,070)	
Net decrease in loans	17,672	6,174	11,449
Purchase of furniture, equipment and leasehold improvements	(38,066)	(31,213)	(47,869)
Capitalized software	(15,723)	(1,520)	(29,521)
Purchase of intangible assets	(1,491)	(5,350)	(12,976)
Proceeds from disposals of businesses, net		18,397	(57,038)
Purchases of businesses			(112,793)
<b>Cash used in investing activities</b>	<b>(3,008,673)</b>	<b>(580,050)</b>	<b>(70,575)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Bank loans and overdrafts	(6,453)	(9,524)	47,394
Net increase/ (decrease) in interest bearing deposits	2,823,743	466,008	(194,230)
Net increase/ (decrease) in non interest bearing deposits	145	(372)	625
Purchases of publicly held common shares			(391,747)
Dividends paid on subsidiary preferred stock	(426)	(369)	
Distribution paid to Parent re: TD Evergreen Acquisition			(56,500)
<b>Cash provided by/ (used in) financing activities</b>	<b>2,817,009</b>	<b>455,743</b>	<b>(594,458)</b>

Effect of exchange rate differences on cash and cash equivalents	(10,652)	5,554	1,408
(Decrease)/ increase in cash and cash equivalents	(198,109)	89,311	(156,523)
Cash and cash equivalents, beginning of year	420,825	331,514	487,832

Cash and cash equivalents, end of year	\$	222,716	\$	420,825	\$	331,514
Supplemental disclosures of cash flow information:						
Cash paid for interest	\$	66,247	\$	95,326	\$	101,283
Cash paid for income taxes	\$	81,870	\$	44,394	\$	50,222

The accompanying notes are an integral part of these consolidated financial statements.

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**TD WATERHOUSE GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share data)**

**1. Organization and Description of Business**

TD Waterhouse Group, Inc. (the Company or TDW Group), a Delaware holding company, is a wholly owned subsidiary of The Toronto-Dominion Bank (TD Bank) directly and through certain of TD Bank's subsidiaries, which through its operating subsidiaries is a leading provider of online financial services to investors in the U.S. and Canada.

The Company was formerly a public company which was 89.3% owned by TD Bank through its wholly owned subsidiary, TD Waterhouse Holdings, Inc. (TDW Holdings). On November 26, 2001, TD Bank completed the merger of the Company with its former parent, TDW Holdings, and the Company is the surviving entity of the merger. The merger was the second step in a two-step acquisition. The first step, a cash tender offer for all outstanding shares of the Company at \$9.50 per share, was completed on November 14, 2001, and a subsequent offering period was completed on November 21, 2001.

The Company is the U.S. holding company for TD Bank's U.S. and Canadian discount brokerage and U.S. retail banking operations. During the year ended October 31, 2004, R.J. Thompson Holdings, Inc., TD Waterhouse Advertising, Inc., and TD Waterhouse Technology Services ceased to be operating entities.

The Company's primary operating subsidiaries in the discount brokerage business and banking business are detailed below:

TD Waterhouse Investor Services, Inc. (TDW US), formerly Waterhouse Securities, Inc., a wholly-owned U.S. registered broker-dealer which provides discount brokerage services to retail customers in the U.S.

National Investor Services Corp. (NISC), a wholly-owned U.S. registered broker-dealer which provides execution and clearance services for affiliates, including TDW US, and third party broker-dealers.

TD Waterhouse Asset Management (TDWAM), formerly Waterhouse Asset Management, a wholly-owned U.S. registered investment advisor which provides investment advice to a series of affiliated mutual funds.

TD Waterhouse Investor Services (Canada) Inc. (TDW Canada), an approximately 90% owned registered broker-dealer which provides discount brokerage services to customers in Canada. On July 1, 2002, TDW Canada issued additional common shares and paid cash consideration to acquire the assets and liabilities of the full service brokerage and financial planning operations of a TD Bank affiliate. This merger of entities under common control has been accounted for in a manner similar to a pooling of interests by retroactively combining the net assets, operations and cash flows of these entities with the Company's for all periods presented.

TD Waterhouse Bank, NA (TDW Bank), formerly Waterhouse National Bank, is a wholly-owned federally chartered banking institution and a member of the Federal Deposit Insurance Corporation (FDIC). TDW Bank provides banking services to the customers of its affiliate, TDW US. TDW Bank offers checking accounts, checking accounts with overdraft protection and certificates of deposit. TDW Bank also offers credit cards and mortgages through unaffiliated third parties. In addition, TDW Bank provides brokerage customers the ability to keep un-invested funds in an FDIC insured money market account with check writing and debit card options.

CTUSA, Inc. (CTUSA), is the wholly-owned holding company of TD Bank USA, F.S.B. (TDB USA), a Federal Savings Bank chartered under Section 5 of the Home Owners' Loan Act and regulated by the Office of Thrift Supervision.

TD Waterhouse Capital Markets, Inc. (TDW CM), operates as a Boston Stock Exchange, Inc. (BSE) specialist in listed securities and a market maker in over-the-counter equity securities,



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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands, except share data)**

primarily those traded on the NASDAQ Stock Market and the OTC Bulletin Board. TDW CM is a wholly-owned securities brokerage firm registered with the Securities and Exchange Commission ( SEC ) and is a member of the National Association of Securities Dealers, Inc. ( NASD ), and the BSE.

**2. Summary of Significant Accounting Policies*****Basis of consolidation and form of presentation***

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant inter-company transactions have been eliminated in consolidation. The approximately 10% non-controlling interest in TDW Canada is reflected net of tax in the consolidated balance sheet as minority interest and separately in the consolidated statements of income.

***Use of estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain reclassifications have been made to 2003 and 2002 amounts to conform to the current year's presentation.

***Cash and cash equivalents***

The Company considers all highly liquid investments with original maturities of three months or less (except for amounts designated as investment securities) to be cash equivalents, including cash due from banks and money market investments.

***Preferred Stock***

TDW Canada has 17,100 shares of Class B preferred stock issued and outstanding. Holders of the Class B preferred shares are entitled to receive floating rate preferential cumulative cash dividends payable quarterly. The Company may at any time following May 20, 2005, the fifth anniversary of the issuance of the Class B preferred shares, redeem the shares for CDN\$1,000 per share.

***Investment securities***

Investment securities classified as *held to maturity* and *available for sale* are accounted for in accordance with Statement of Financial Accounting Standard ( SFAS ) 115, *Accounting for Certain Investments in Debt and Equity Securities* ( SFAS 115 ). Pursuant to SFAS 115, in instances where the Company has the positive intent and ability to hold to maturity, debt investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts using the interest method over the period of maturity. Debt and equity investment securities classified as *available for sale* are carried at fair value with unrealized gains and losses, net of income tax effects, reported as a net amount within accumulated other comprehensive income, until realized. These securities are predominantly fixed rate mortgage-backed securities denominated in Canadian dollars and strategic equity investments. Gains or losses on sales of securities are recognized by the specific identification method and are recorded in other income. The fixed interest rates and currency risks inherent in the mortgage-backed securities have been hedged by cross currency interest rate swap contracts.

These cross currency interest rate swap contracts are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ), which establishes accounting and reporting standards for all derivative instruments and hedging activities, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*.

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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands, except share data)**

SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value, as either assets or liabilities. The Company has designated the cross currency interest rate swap contracts as hedges of the fair value of the underlying Canadian dollar mortgage-backed securities. Changes in fair value of a derivative that is highly effective and that is designated and qualifies as a fair value hedge, along with changes in fair value of the hedged asset and liability that are attributable to the hedged risk, are recorded in current period earnings. The cross currency interest rate swap contracts are structured such that the terms of the contracts mirror those of the underlying mortgage-backed securities. Market value gains and losses on the swaps are expected to offset market value gains and losses on those securities with no net impact on earnings.

Trading securities are comprised of Canadian dollar fixed rate mortgage-backed securities held by TDW Canada, which are managed by interest rate swap contracts; corporate stocks; bonds; and U.S. government securities owned by the broker-dealer subsidiaries. These instruments are carried at fair value with unrealized gains and losses reported in income.

***Financing transactions***

Deposits paid for securities borrowed and deposits received for securities loaned are recorded at the amount of cash collateral advanced or received. Deposits paid for securities borrowed transactions require the Company to deposit cash with the lender. With respect to deposits received for securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of the securities loaned. The Company monitors the market value of the securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

Securities purchased under resale agreements consist of the purchase of a security with a commitment by the Company to resell the security to the original seller at a specified price. Securities purchased under resale agreements are carried at cost. The difference between the cost of the purchase and the predetermined proceeds the Company receives on a resale agreement is recorded as interest income.

***Customers securities transactions***

Customers securities transactions are recorded on a settlement date basis with related commission income and expenses recorded on a trade date basis. Fees consist primarily of commissions for directing order executions and clearing fees. Proprietary securities transactions are recorded on a trade date basis.

***Restricted investment securities***

Federal Reserve Bank Stock and Federal Home Loan Bank Stock are classified as restricted securities and recorded at cost (par value). Their carrying values at October 31, 2004 were \$25,440 and \$7,255, respectively, and at October 31, 2003 were \$16,740 and \$5,870, respectively. These securities are not readily marketable, but can be sold back to the issuer or to another member institution at par value.

***Loans and allowances for losses***

Loans are carried at their principal amount outstanding. Unearned income on loans is accreted to interest income using a method that approximates a level yield over the life of the loan. Loan origination fees and certain direct loan origination costs are deferred and amortized over the appropriate lending period as a component of interest income.

Loans are placed on non-accrual status when there is doubt as to collectibility or if payment of principal or interest is contractually 90 days past due. However, at the judgment of senior credit management, loans that are 90 days past due, but which are well collateralized and in the process of collection, may continue to be recorded on an accrual basis. Interest accrued, but not collected at the date a loan is placed in non-accrual status, is reversed against interest income. Interest income on non-accrual loans is recognized only as cash is received. However, where there is doubt regarding the ultimate

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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands, except share data)**

collectability of the loan principal, cash receipts are applied to reduce the carrying value of the loan. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured.

TDW Bank establishes an allowance for loan losses to reflect management's best judgment of the net realizable value of the loans. The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). TDW Bank's periodic evaluation of the adequacy of the allowance is based on TDW Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions.

The Company's broker-dealer subsidiaries establish an allowance for losses on receivables from customers to reflect management's best judgment of the level of non-collectible receivables that will be experienced.

***Furniture and equipment and lease accounting***

Leasehold improvements are amortized on a straight-line basis over the lesser of the lease terms or their estimated useful lives. Depreciation of capitalized furniture and equipment is provided on a straight-line basis generally using estimated useful lives of three to five years. Leases with escalating rents are expensed on a straight-line basis over the life of the lease.

***Capitalized software***

In accordance with Accounting Standards Executive Committee (AcSEC) Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, the Company capitalizes all direct costs associated with the application development of this software including software acquisition costs, consulting costs, and internal payroll costs. The Statement requires these costs to be amortized once the application development stage is complete. Amortization is provided on a straight-line basis generally using estimated useful lives of two to seven years. At October 31, 2004 and 2003, these capitalized costs had a book value of \$30,637 and \$29,649, respectively, net of \$67,263 and \$52,660 of accumulated amortization, respectively. The expense related to these costs was \$15,055, \$12,987 and \$15,057 for the years ended October 31, 2004, 2003 and 2002, respectively.

***Business Combinations, Goodwill and Intangible Assets***

For business combinations that have been accounted for under the purchase method, the excess of the purchase price over the fair value of the net assets acquired has been recorded as goodwill in the consolidated statement of financial condition. Pursuant to the purchase method, the results of operations, changes in equity and cash flows of acquired companies and businesses are included in operations from the date of acquisition. There were no significant acquisitions during the years ended October 31, 2004 and 2003.

The Company applies SFAS No. 142, *Goodwill and Intangible Assets* (SFAS 142). Under the standard, all goodwill and intangibles, including goodwill acquired before initial application of the standard, are not amortized, but should be tested for impairment at least annually. The Company performed its impairment test and no impairment was identified for the year ended October 31, 2004. In fiscal year 2003, the Company determined that goodwill related to its international business sold had become impaired. Accordingly, the Company recorded a \$11,104 impairment charge that is included in other expenses in the consolidated statements of income. In fiscal year 2002, the Company recorded a \$9,212 impairment charge related to the performance of its Australian operations. This charge is included in discontinued operations in the consolidated statements of income.

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Intangible assets other than goodwill are amortized over their useful lives. At October 31, 2004 and 2003, the net book value of intangible assets was \$12,409 and \$14,827 net of accumulated amortization of \$4,040 and \$0 respectively, the majority of which relates to intangibles from the November 2001 R.J. Thompson Holdings, Inc. acquisition which are being amortized over a three year useful life which began in February 2004. Amortization expense for the years ended October 31, 2004 and 2003 was \$4,040 and \$0, respectively.

Estimated future amortization expense for existing identifiable intangible assets is set forth below:

2005	\$ 5,332
2006	\$ 5,332
2007	\$ 1,636
2008	\$ 109

**Recent accounting pronouncements**

*EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* In March 2004, the FASB reached a consensus regarding the application of an impairment model to determine whether investments are other-than-temporarily impaired. The provisions of this rule are required to be applied prospectively to all current and future investments accounted for in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. On September 15, 2004, the FASB issued proposed FASB Staff Position (FSP) EITF 03-01-a *Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, The Meaning of Other-Than Temporary Impairment and Its Application to Certain Investments* (FSP EITF 03-1-a) to provide guidance in the application of paragraph 16d of EITF 03-1 to debt securities that are impaired because of interest rate and/or sector spread increases. On September 30, 2004, the FASB issued FSP EITF Issue 03-1-1 *Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than Temporary Impairment and Its Application to Certain Investments* (FSP EITF 03-1-1), which deferred the effective date of the impairment measurement and recognition provisions contained in specific paragraphs of EITF 03-1 and expanded the scope of proposed FSP EITF 03-1-to include all securities, not only debt securities. The comment period for proposed FSP EITF 03-1-a ended on October 29, 2004 and the effective date has been deferred indefinitely. The Company does not expect the new rules to have a material impact on its results of operations at the time of adoption.

**Mutual fund and related revenue**

Mutual fund and related revenue consists of fees earned for providing investment advisory services to a series of related mutual funds and trailer fees for services provided to third-party mutual funds and affiliated mutual funds. Such revenue is recorded when earned. During the years ended October 31, 2004, 2003 and 2002, the Company earned \$202,735, \$144,713 and \$113,734, respectively, in such fees, net of fees waived which approximated \$11,227, \$17,488 and \$17,794, respectively. Fees earned from mutual funds managed by an affiliated investment advisor for the years ended October 31, 2004, 2003 and 2002 were \$50,928, \$55,587 and \$52,827, respectively.

**Advertising and promotion**

Advertising production costs are expensed when the advertising campaign commences. Costs of communicating advertising are expensed as the services are received. Other promotion costs are expensed as incurred.

**Stock based compensation**

The Company's employees are eligible for participation in the stock-based compensation plan of TD Bank, which is described more fully in Note 14. Effective November 1, 2002, the Company adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ), prospectively to all employee awards granted, modified, or settled after November 1, 2002, in line with the adoption of SFAS 123 by its parent, TD Bank. Therefore, the cost related to stock-based

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employee compensation included in the determination of net income for 2004 is less than that which would have been recognized if the fair value method had been applied to all awards since the effective date of SFAS 123. The revision of SFAS No. 123 was issued in December 2004. The Company is evaluating the new pronouncement and believes there would be no significant impact on the Company's results of operations or financial condition.

The following table illustrates the effect on net income if the Company had applied the fair value recognition provisions of SFAS 123, to all outstanding and unvested stock option-based employee compensation awards.

The underlying assumptions to these fair value calculations are discussed in Note 14.

	<b>For the Year Ended October 31</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
		<b>(Restated)</b>	<b>(Restated)</b>
Net income	\$ 158,072	\$ 44,758	\$ 35,433
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,885	1,317	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(2,296)	(2,626)	(1,656)
Pro forma net income	\$ 157,661	\$ 43,449	\$ 33,777

***Income taxes***

In the United States, the Company files a consolidated federal income tax return along with combined state and local income tax returns. The Company also files separate income tax returns in other countries, as required.

The Company records deferred tax assets and liabilities for the difference between the tax basis of assets and liabilities and the amounts recorded for financial reporting purposes, using current tax rates. Deferred tax expenses and benefits are recognized in the consolidated statement of income for changes in deferred tax assets and liabilities.

The Company reviews its deferred tax assets for realizability. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowance are included in the Company's income tax provision in the period of change.

On October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004, which gives a temporary incentive for U.S. companies to repatriate accumulated foreign earnings with a potential 85% dividend received deduction. The dividend received deduction is subject to a number of limitations, including a requirement to re-invest the dividend in the United States. The dividend received deduction could be used by the Company in either year ended October 31, 2004 or 2005. The dividend received deduction was not utilized during fiscal year 2004.

Because of available foreign tax credits, the Company's preliminary evaluations indicate that it will not utilize the American Jobs Creation Act of 2004 dividend received deduction. However, that evaluation may not be completed until the income tax return is filed in July 2006.

***Foreign currency translation***

Assets and liabilities of international subsidiaries are translated based on the end-of-period exchange rates from local currency to U.S. dollars. Results of operations are translated at the average exchange rates in effect during the period. The resulting translation losses or gains are reported as a component of accumulated other comprehensive income in the consolidated statement of financial condition.



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**3. Restatement of Financial Statements**

The Company has restated its consolidated financial statements as of October 31, 2003 and 2002 and for the years then ended to correct its accounting for leases, stock compensation, certain intercompany eliminations, the 2002 disposition of two wholly owned subsidiaries, and the July 1, 2002 acquisition of the full service brokerage and financial planning operations of TD Securities, Inc. ( TD Evergreen ), a subsidiary of TD Bank, and TD Investment Services, Inc. ( TDIS ) by TDW Canada (the TD Evergreen Acquisition ).

Subsequent to the issuance of the Company s consolidated financial statements for the year ended October 31, 2003, the Company undertook a review of its lease accounting policies and has corrected its method of accounting for certain property leases. The correction involves recording expense for leases with escalating rents and free rent periods on a straight-line basis over the lease term, rather than as paid. This correction resulted in a reduction of retained earnings of \$1,453 at October 31, 2001 and increases of deferred tax assets of \$1,466 and other liabilities of \$3,960 at October 31, 2003. The correction reduced net income by \$571 and \$471, for the years ended October 31, 2003 and 2002, respectively.

The Company s 2003 and 2002 consolidated financial statements have also been restated to properly reflect the TD Evergreen Acquisition. On July 1, 2002, the Company s consolidated subsidiary, TDW Canada, issued 7,159,237 additional common shares and paid \$56,500 to acquire the assets and liabilities of the full service brokerage and financial planning operations of TD Evergreen and TDIS. After the transaction, the Company s ownership percentage in TDW Canada was reduced to approximately 90%, however, the change in reporting entity and recapitalization, including minority interest in TDW Canada, was not reflected retroactively in the previously issued consolidated financial statements. The error resulted in the overstatement (understatement) of stockholders equity at October 31, 2003, 2002 and 2001 of \$51,813, \$41,052, and (\$15,568), respectively, and the understatement of minority interest of \$51,813 at October 31, 2003. The correction reduced net income by \$5,828 and \$1,386 for the years ended October 31, 2003 and 2002, respectively. In addition, as discussed in Note 1, the consolidated financial statements have been restated for all periods presented to report the transaction retroactively as a merger of entities under common control.

The Company s 2003 consolidated financial statements have also been restated to recognize additional compensation expense related to the TD Bank stock option plan described in Note 13. TD Bank did not allocate the correct SFAS 123 expense to the Company. The effect of this correction was an increase in additional paid in capital and reduction in net income of \$750 at October 31, 2003 and for the year then ended.

The Company s 2003 and 2002 consolidated financial statements have also been restated to eliminate intercompany receivable and payable balances resulting from certain TDW Canada customer accounts being cleared by NISC. The related NISC receivable from TDW Canada and the TDW Canada payable to NISC of \$49,818 at October 31, 2003 and \$5,688 at October 31, 2002, were not previously eliminated in consolidation.

Additionally, the Company s 2002 consolidated financial statements have been corrected to properly account for the disposal of two businesses. Specifically, the previously issued financial statements improperly netted the revenues and expenses of these two subsidiaries and excluded certain cash balances and changes in assets and liabilities associated with these two subsidiaries. As part of the restatement, the investing cash flow line item entitled Proceeds from disposals of businesses, net has been restated to reflect a reduction of \$287 million of proceeds received from the sale of the subsidiaries net of cash transferred to the buyer and the Company s 2002 consolidated statement of income has been restated to reflect these subsidiaries net revenue of \$30,588, operating expenses of \$50,908, and income tax benefit of \$6,764 within their appropriate line items.

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The restatement also includes the recording of other adjustments that were identified during the year-end closing process that had no effect on net income and were not material to the consolidated financial statements of the Company.

The following table summarizes each of the restated amounts in the Company's consolidated financial statements as of October 31, 2003 and October 31, 2002 and for the years then ended:

	<b>For the Year Ended October 31, 2003</b>		<b>For the Year Ended October 31, 2002</b>	
	<b>As Originally Reported</b>	<b>As Restated</b>	<b>As Originally Reported</b>	<b>As Restated</b>
<b>Consolidated Statements of Income</b>				
Commissions and fees	\$ 653,154	\$ 653,154	\$ 560,412	\$ 573,638
Other non-interest income	66,948	61,017	59,791	151,982
Net revenue	1,196,395	1,190,464	981,413	1,133,298
Employee compensation and benefits	455,847	456,597	351,774	372,557
Occupancy	70,925	71,832	63,657	66,650
Equipment	37,782	37,782	42,999	46,992
Other expenses	96,582	101,755	60,197	190,171
Total operating expenses	1,035,361	1,031,087	880,704	1,040,101
Income before income taxes and minority interest	161,034	159,377	100,709	93,197
Income tax provision	54,216	53,881	51,533	44,492
Minority interest in subsidiary		5,828		1,386
Income from continuing operations	106,818	99,668	49,176	47,319
Loss on discontinued operations	(54,910)	(54,910)	(11,886)	(11,886)
Net income	51,908	44,758	37,290	35,433
<b>Consolidated Statements of Cash Flows</b>				
Cash flows from operating activities	193,631	208,064	470,876	507,307
Cash flows from investing activities	(580,002)	(580,050)	198,880	(70,575)
Cash flows from financing activities	465,526	455,743	(584,236)	(594,458)
	<b>October 31, 2003</b>		<b>October 31, 2002</b>	
	<b>As Originally Reported</b>	<b>As Restated</b>	<b>As Originally Reported</b>	<b>As Restated</b>
<b>Consolidated Statements of Financial Condition</b>				
	117,540	67,726	133,646	127,958

Receivables from brokers and  
dealers

Deferred tax assets	16,134	17,600		27,717
Total assets	15,992,046	15,939,709	13,086,527	13,090,681
Payables to brokers and dealers	232,097	186,243	190,540	186,669
Deferred tax liabilities	44,653	42,039		16,490
Total liabilities	13,236,904	13,187,061	10,439,822	10,449,939
Minority interest		51,813		41,052
Total stockholders equity	2,755,142	2,700,835	2,646,705	2,599,690

#### 4. Business Dispositions

In fiscal year 2003, the Company further reduced its international operational exposure with a view to eliminating loss generating operations and re-directing its focus on North American operations.

In May 2003, the Company completed the sale of TD Waterhouse Australia, its discount brokerage operations in Australia, to the Commonwealth Bank of Australia Group for \$16,915, generating a pre-tax

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loss of \$26,227 from the June 1999 acquisition to the date of disposal. The sale generated a loss on disposal of \$19,602.

In June 2003, the Company completed the sale of TD Waterhouse Holdings BV to TD Bank for \$293,000, which approximated net book value. Prior to the sale, the Company recorded an impairment charge of \$49,300 to write down the value of its investment in joint ventures held by TD Waterhouse Holdings Europe BV. In July 2003, the Company sold 23% of its 50% ownership interest in DBS TD Waterhouse Holdings PTE LTD ( DBS TDW ) to DBS Vickers Securities Holdings PTE LTD, reducing its ownership to 27%. The Company recognized a \$2,300 pre-tax loss on the sale. In October 2003, the Company sold the remaining investment in DBS to TD Bank at net book value of \$2,300.

The disposal of these businesses and related charges are reflected in the consolidated statements of income as discontinued operations and can be summarized as follows:

	2003	2002
Losses from operations	\$ 3,011	\$ 16,896
Loss on disposal	61,650	
Income tax benefit	9,751	5,010
Net loss from discontinued operations	\$ 54,910	\$ 11,886

**5. Investment Securities**

Investment securities have been classified in the consolidated statements of financial condition according to management's intent and ability to hold to maturity. The following tables present information related to the Company's portfolio of investment securities held to maturity:

	October 31, 2004			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	(Losses)	
U.S. government agency securities	\$ 1,880,052	\$ 46	\$ (772)	\$ 1,879,326
Mortgage-backed securities	951,543	41	(96)	951,488
<b>Total investment securities held to maturity</b>	<b>\$ 2,831,595</b>	<b>\$ 87</b>	<b>\$ (868)</b>	<b>\$ 2,830,814</b>

	October 31, 2003			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	(Losses)	
U.S. government agency securities	\$ 875,658	\$ 207	\$ (159)	\$ 875,706

Mortgage-backed securities	374,194	73	(13)	374,254
<b>Total investment securities held to maturity</b>	<b>\$ 1,249,852</b>	<b>\$ 280</b>	<b>\$ (172)</b>	<b>\$ 1,249,960</b>

At October 31, 2004 and 2003, securities carried at approximately \$135,000 and \$64,213, respectively, were pledged for purposes required or permitted by law. This is in consideration of TDW Bank being able to request advances from and incur indebtedness to the Federal Reserve Bank of New York.

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The following tables summarize the held-to-maturity securities with unrealized losses as of October 31, 2004 and 2003. The unrealized losses are aggregated by major security type and length of time that individual securities have been in a continuous unrealized loss position.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>October 31, 2004</b>						
U.S. Treasury obligations	\$	\$	\$	\$	\$	\$
U.S. agency obligations	648,944	(720)			648,944	(720)
State or local housing agency obligations						
Other	52,207	(8)	88,152	(44)	140,359	(52)
Mortgage-backed securities	406,051	(96)			406,051	(96)
<b>Total temporarily impaired</b>	<b>\$ 1,107,202</b>	<b>\$ (824)</b>	<b>\$ 88,152</b>	<b>\$ (44)</b>	<b>\$ 1,195,354</b>	<b>\$ (868)</b>
<b>October 31, 2003</b>						
U.S. Treasury obligations	\$	\$	\$	\$	\$	\$
U.S. agency obligations	171,008	(159)			171,008	(159)
State or local housing agency obligations						
Other						
Mortgage-backed securities	224,965	(13)			224,965	(13)
<b>Total temporarily impaired</b>	<b>\$ 395,973</b>	<b>\$ (172)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 395,973</b>	<b>\$ (172)</b>

TDW Bank and TDB USA have concluded that, based on the creditworthiness of the issuers and any underlying collateral, the unrealized losses on each security in the above table represents a temporary impairment and does not require an adjustment to the carrying amount of any of the securities.

The following tables present information related to the Company's portfolio of investment securities available for sale:

**October 31, 2004**

**Gross Unrealized**

	<b>Amortized Cost</b>	<b>Gains</b>	<b>(Losses)</b>	<b>Fair Value</b>
Canadian government guaranteed mortgage-backed securities	\$ 5,671,709	\$ 713,490	\$	\$ 6,385,199
U.S. equity securities	3,500	9,118		12,618
U.S. government agency securities	447,587	172	(547)	447,212
U.S. state and municipal securities	95,448	932	(443)	95,937
<b>Total investment securities available for sale</b>	<b>\$ 6,218,244</b>	<b>\$ 723,712</b>	<b>\$ (990)</b>	<b>\$ 6,940,966</b>

<b>October 31, 2003</b>				
	<b>Amortized Cost</b>	<b>Gross Unrealized</b>		<b>Fair Value</b>
		<b>Gains</b>	<b>(Losses)</b>	
Canadian government guaranteed mortgage-backed securities	\$ 5,267,747	\$ 409	\$ (2,669)	\$ 5,265,487
U.S. government agency securities	1,706	72		1,778
U.S. state and municipal securities	67,778	1,102	(769)	68,111
<b>Total investment securities available for sale</b>	<b>\$ 5,337,231</b>	<b>\$ 1,583</b>	<b>\$ (3,438)</b>	<b>\$ 5,335,376</b>

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The scheduled maturities of held-to-maturity securities and available-for-sale securities (other than equity securities) are as follows:

**October 31, 2004**

	<b>Held to Maturity</b>		<b>Available for Sale</b>	
	<b>Amortized Cost</b>	<b>Market Value</b>	<b>Amortized Cost</b>	<b>Market Value</b>
Due in one year or less	\$ 2,742,744	\$ 2,741,966	\$ 266,549	\$ 314,628
Due from one year through five years	28,196	28,182	5,934,720	6,600,046
Due after five years through ten years			12,721	12,898
Due after ten years	60,655	60,666	754	776
<b>Total</b>	<b>\$ 2,831,595</b>	<b>\$ 2,830,814</b>	<b>\$ 6,214,744</b>	<b>\$ 6,928,348</b>

**October 31, 2003**

	<b>Held to Maturity</b>		<b>Available for Sale</b>	
	<b>Amortized Cost</b>	<b>Market Value</b>	<b>Amortized Cost</b>	<b>Market Value</b>
Due in one year or less	\$ 1,247,577	\$ 1,247,541	\$ 1,105,558	\$ 1,105,568
Due from one year through five years	1,558	1,669	4,214,074	4,212,337
Due after five years through ten years			17,129	16,996
Due after ten years	717	750	470	475
<b>Total</b>	<b>\$ 1,249,852</b>	<b>\$ 1,249,960</b>	<b>\$ 5,337,231</b>	<b>\$ 5,335,376</b>

For purposes of this table, mortgage-backed securities are classified at their stated maturity. Mortgage-backed securities may mature earlier than their stated maturities because of principal repayments. Actual cash flows can be expected to differ from scheduled maturities due to prepayment or earlier call provisions of the issuer.

Proceeds from the sale of available-for-sale securities and gross realized losses have been included in earnings. For the years ended October 31, 2004, 2003 and 2002, gross losses of \$231, \$244 and \$357, respectively, were realized on sales of available-for-sale securities.



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**6. Receivables from and Payables to Brokers and Dealers**

Receivables from and payables to brokers and dealers, which are recorded at contract value, comprise the following:

	<b>As at October 31,</b>	
	<b>2004</b>	<b>2003</b>
		<b>(Restated)</b>
<b>Receivables</b>		
Securities failed to deliver	\$ 17,376	\$ 10,902
Correspondent broker and clearing organization balances	45,660	47,661
Clearing and other fees	3,558	6,475
Other	12,546	2,688
	\$ 79,140	\$ 67,726
<b>Payables</b>		
Securities failed to receive	\$ 31,619	\$ 18,295
Correspondent broker and clearing organization balances	41,722	114,325
Other	102,778	53,623
	\$ 176,119	\$ 186,243

**7. Receivables from and Payables to Customers**

Receivables from customers are generally collateralized by marketable securities. Receivables from customers are reported net of unsecured or partially secured amounts over 30 days. The allowance was \$9,102 and \$10,975 at October 31, 2004 and 2003, respectively. At October 31, 2004 and 2003, receivable from customers includes \$6,129 and \$6,978, respectively, representing accounts of executive officers and directors.

Payables to customers primarily represent free credit balances in customers' accounts. The Company pays customers interest on certain free credit balances at a rate based on prevailing short-term money market rates. Interest expense for the years ended October 31, 2004, 2003 and 2002 was \$42,174, \$52,993 and \$31,852, respectively. At October 31, 2004 and 2003, payable to customers includes \$5,594 and \$6,172, respectively, representing accounts of executive officers and directors.

**8. Collateral Pledged**

At October 31, 2004 and 2003, the Company has received collateral primarily in connection with securities borrowed and customer margin loans with a market value of \$10,005,000 and \$8,880,000, respectively, which it can sell or re-pledge. Of these amounts, \$1,485,000 and \$1,546,000, respectively, has been re-pledged or sold in connection with securities loans, bank borrowings and deposits with clearing organizations.

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**9. Loans**

A summary of outstanding loans made by TDW Bank and TDB USA is as follows:

	<b>As at October 31,</b>	
	<b>2004</b>	<b>2003</b>
Home equity	\$ 6,526	\$ 7,981
Consumer loans	975	17,786
Commercial loans	15,006	14,837
Mortgages	2,572	2,903
	25,079	43,507
Less allowance for loan losses	(600)	(1,702)
<b>Total loans</b>	<b>\$ 24,479</b>	<b>\$ 41,805</b>

The following summarizes the activity in the TDW Bank and TDB USA allowance for loan losses:

	<b>As at October 31,</b>	
	<b>2004</b>	<b>2003</b>
Beginning balance	\$ 1,702	\$ 1,553
Provision for/(reversal of) loan losses	(346)	1,141
Charge-offs (net of recoveries)	(756)	(992)
	\$ 600	\$ 1,702

At October 31, 2004 and 2003, TDW Bank and TDB USA had no recorded investments in impaired loans. Loans are charged off when they are deemed uncollectible. Loans that are past due at least 90 days are recommended for charge off and are charged off no later than 120 days past due.

**10. Financing Activities**

Bank loans and overdrafts primarily represent short-term borrowings in the United States, which bear interest at rates based primarily on the U.S. Federal funds rate. The loans are generally collateralized by customers' margin securities. The following is a summary of comparative bank loan data:

	<b>As at October 31,</b>	
	<b>2004</b>	<b>2003</b>
Average amount outstanding during period	\$ 18,899	\$ 8,699
Maximum amount outstanding during period	225,000	163,000

Weighted average interest rate at end of period	0.00%	0.00%
Weighted average interest rate during period	1.47%	1.46%

At October 31, 2004 and 2003, NISC maintained available bank credit lines totaling \$1,605,000 and \$1,825,000, respectively of which \$1,000,000 is with TD Bank. All the lines require collateralization when drawn upon and bear interest at a rate based on the U.S. Federal funds rate. NISC had no borrowings outstanding under these credit lines at October 31, 2004 and 2003. TDW Canada has an irrevocable letter of credit of \$75,000 from Harris Bank deposited with Options Clearing Corporation at October 31, 2004 and 2003. TDW Canada paid an administration fee of \$266 and \$243 for the years ended October 31, 2004 and 2003, respectively, on the letter of credit.

Deposits received for securities loaned primarily represent short-term collateralized financing transactions, which bear interest based on prevailing market rates (average rates of 0.90%, 0.50% and 1.45% for the years ended October 31, 2004, 2003 and 2002, respectively). In addition, TDW Canada acts

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as an intermediary between lenders and borrowers of securities and earns a net interest spread on stock loan and stock borrow transactions.

Interest bearing deposits primarily represent money market accounts without a stated maturity date which bear interest based on prevailing market rates (average rates of 0.18%, 0.20% and 0.60% for the years ended October 31, 2004, 2003 and 2002, respectively).

**11. Subordinated Debt**

On October 31, 1997, TDW Holdings entered into an agreement with an affiliate, pursuant to which TDW Holdings would issue Subordinated Debt Series B Notes (the Notes) in the aggregate amount of \$100,000. On November 7, 1997, the affiliate purchased Notes in the aggregate amount of \$30,000. The Notes are redeemable after 15 years from the issuance date. For the first ten years, the Notes bear a fixed rate of interest based on 10 year Treasury Notes (determined on the Notes issuance date) plus 75 basis points. For the final five years, the Notes bear a variable rate of interest based on U.S. dollar LIBOR plus 100 basis points.

As a result of the merger of TDW Holdings into TDW Group, the Notes became an obligation of the Company. The Notes are unsecured and subordinated with an original weighted-average maturity of more than five years and therefore qualify as risk-based capital for regulatory capital purposes.

**12. Fair Value of Financial Instruments**

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The following summary presents the methodologies and assumptions used to estimate fair value of the Company's financial instruments. Some of the information used to determine fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. The subjective factors include estimates of, among other things, cash flows, risk characteristics, credit quality, restriction discounts, and interest rates, all of which are subject to change. Changes in assumptions could significantly affect the estimates. The fair value is estimated as of the balance sheet date, therefore, the amounts which will actually be realized or paid upon settlement or maturity of the various instruments could be significantly different.

***Financial assets***

The fair value of investment securities are based on quoted market prices or dealer quotes.

The fair values of cash and cash equivalents, loans and accrued interest receivable and other investment security positions approximate their respective carrying amounts due to their short-term nature.

***Financial liabilities***

Deposits without a stated maturity include money market interest checking accounts and demand deposit accounts and other customer balances. At October 31, 2004 and 2003, these checking and deposit accounts and customer balances amounted to \$8,624,381 and \$5,800,163, respectively, and are reported at their carrying values, which approximate their fair values at the reporting dates. At October 31, 2004 and 2003, the carrying value for certificates of deposit of \$7,540 and \$7,870, respectively, approximates their fair values.

Other liabilities have fair values which approximate their carrying amounts due to their short-term nature.

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**13. Financial Instruments with Off-Balance Sheet Risk**

In the normal course of business the Company is exposed to off-balance sheet risk. The Company executes, as agent, securities transactions on behalf of its customers. If either the customer or the counter-party fails to perform, the Company may sustain a loss if the market value of the security is different from the contract value of the transaction.

The Company may deliver securities as collateral in support of various collateralized financing sources such as bank loans and deposits received for securities loaned. In addition, the Company delivers customer securities as collateral to satisfy margin deposits of various clearing organizations. In the event the counter-party is unable to meet its contracted obligation to return customer securities delivered as collateral, the Company may be obligated to purchase the securities in order to return them to the owner. In such circumstances, the Company may incur a loss up to the amount by which the market value of the securities exceeds the value of the loan or other collateral received by, or in the possession or control of, the Company.

For transactions in which the Company extends credit to customers and counter-parties, the Company seeks to control the risks associated with these activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requests customers to deposit additional collateral or reduce securities positions when necessary.

The Company has a North American retail customer base. The Company conducts business with brokers and dealers, clearing organizations and depositories that are primarily located in the United States and Canada. The majority of the Company's transactions and, consequently, the concentration of its credit exposures are with customers, broker-dealers and other financial institutions in the United States and Canada. This results in credit exposure in the event that the counter-party fails to fulfill its contractual obligations. The Company's exposure to credit risk can be directly affected by volatile securities markets, which may impair the ability of counter-parties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the counter-party's financial condition and credit rating. The Company monitors collateral levels on a daily basis for compliance with regulatory and internal guidelines, and requests changes in collateral levels as appropriate.

The Company, through TDW Bank, is a party to financial instruments with off-balance sheet risk to reduce its own exposure to fluctuations in foreign currency rates, interest rates and movements in equity indices. These financial instruments include forward foreign exchange contracts, cross currency interest rate swaps and equity derivative contracts. These instruments involve elements of credit risk, counterparty risk and market risk in excess of the amounts recognized on the consolidated balance sheet. The contract or notional amounts of these instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

Creditworthiness is evaluated on a case-by-case basis in accordance with credit policies.

***Forward foreign exchange contracts and cross currency interest rate swaps***

The Company, through TDW Bank, has entered into forward foreign exchange contracts and cross currency interest rate swap agreements which have been designated and are effective as fair value hedges that mitigate the impact of changes in foreign exchange and interest rates on its Canadian Dollar mortgage-backed securities. Market value gains and losses on these contracts and agreements are currently recognized in other revenue. The portion of the change in the hedged securities' fair value attributable to changes in interest rate and foreign exchange risk are reflected as a basis adjustment of the amortized cost of the securities and also are reported in current earnings, effectively offsetting gains and losses on the contracts and agreements. Other changes in the fair value of the hedged securities are reported through

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Other Comprehensive Income net of the related tax effects in accordance with the requirements for available for sales securities. These agreements and contracts effectively convert the returns on the fixed rate Canadian dollar mortgage-backed securities to U.S. dollar floating rates of return. Outstanding forward foreign exchange contracts were \$0 and \$2,968 at October 31, 2004 and 2003, respectively.

At October 31, 2004 and 2003, the Company, through TDW Bank, had 104 and 44, respectively, cross currency interest rate swap agreements outstanding, having a total notional principal amount of \$5,671,709 and \$4,747,896, respectively. These agreements are used to hedge foreign currency risk exposure as well as to provide floating rates of return on its Canadian Dollar mortgage-backed securities.

***Interest rate swaps***

The Company, through TDW Canada, has entered into Canadian Dollar interest rate swap agreements to mitigate the impact of changes in interest rates on Canadian Dollar mortgage-backed securities held by TDW Canada. Market value gains and losses are recognized in the income statement, and offset market value gains and losses on those securities. At October 31, 2004 and 2003, the Company, through its Canadian subsidiary, had 23 and 34, respectively, interest rate swap agreements outstanding, having a total notional principal amount of \$1,720,037 and \$1,166,819, respectively. These agreements are used to manage the change in market value and prepayment risk exposure as well as provide floating rates of return on its Canadian Dollar mortgage-backed securities.

***Equity derivative contracts***

The Company, through TDW Bank, has entered into equity derivative agreements that are designed to provide equity returns on its equity-linked certificates of deposit. Market value gains and losses are recognized currently and the resulting credits and debits offset market value gains and losses on the embedded derivatives in those certificates of deposit. At October 31, 2004 and 2003, four equity derivative agreements were outstanding, having total notional principal amounts of \$1,102 and \$1,152, respectively. The equity derivative agreements mirror the lives of the underlying equity-linked certificates of deposit.

In conjunction with share based compensation awards, the Company has entered into swap agreements with its parent, TD Bank, designed to mitigate the risk of market price fluctuations. The swaps are designated as cash flow hedges and have been determined to be highly effective. Market fluctuations in TD Bank common shares are reflected in Compensation Expense with the offsetting gain or loss on the swap reported in Other Revenue, for the pro-rata portion of the awards that have vested. Gain or loss on unvested units is recorded in Other Comprehensive Income. At October 31, 2004 and 2003, the notional amount of all equity compensation swaps was \$11,329 and \$5,292, respectively.

**14. Stock Options**

TD Bank operates a stock option plan for eligible employees of TD Bank and its subsidiaries, including the Company. These options provide holders the right to purchase common shares of TD Bank at a fixed price equal to the closing market price of the TD Bank shares on the day prior to the date the options were issued. TD Bank's first plan, the 1993 stock option plan, expired in 2000 and there will be no further issuance of stock options from this plan. The successor plan, the 2000 stock incentive plan, was in effect as of December 2000. Under both plans, options with a term of 10 years to purchase TD Bank common shares are periodically granted to eligible employees and non-employee directors of the Company. The options vest over a 4-year period and are exercisable at the market price of the shares on the date the options were issued and provide for a cashless exercise feature. During the fiscal year ended October 31, 2000, all option holders signed legally binding waivers to forfeit their right to the cashless exercise resulting in a new measurement date under APB 25. Compensation expense was recorded for the intrinsic value of the stock options. Effective December 2003, new stock options were granted with a 7-year term and vesting over a four-year period. However, because the awards contain cash settlement features, pursuant to

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SFAS 123, the Company records compensation expense based on the annual change in the intrinsic value of the cash settled awards. At October 31, 2004, outstanding options have exercise prices ranging from \$14.33 to \$34.24, have a weighted average remaining contractual life of 6.26 years, and expire on dates ranging from March 2005 to December 2012. At October 31, 2003, outstanding options have exercise prices ranging from \$8.96 to \$31.62, have a weighted average remaining contractual life of 7.04 years, and expire on dates ranging from March 2004 to December 2012. At October 31, 2002, outstanding options have exercise prices ranging from \$6.50 to \$26.31, have a weighted average remaining contractual life of 6.92 years, and expire on dates ranging from March 2004 to December 2011.

A summary of the Company's portion of stock options activity is as follows:

	October 31, 2004	Weighted Average Exercise Price	October 31, 2003	Weighted Average Exercise Price	October 31, 2002	Weighted Average Exercise Price
Number outstanding, beginning of year	2,377,723	\$ 25.92	1,305,200	\$ 18.55	1,399,125	\$ 15.59
Granted	242,324	33.60	622,100	25.35	608,700	21.65
Transferred in	457,048	30.93	1,161,473	26.61	80,000	23.23
Transferred out	(34,799)	30.20	(336,450)	24.26	(538,850)	16.57
Exercised	(449,004)	25.45	(44,850)	13.01	(3,300)	17.73
Forfeited	(182,675)	30.93	(329,750)	23.25	(240,475)	16.99
Number outstanding, end of year	2,410,617	29.39	2,377,723	25.92	1,305,200	18.55
Exercisable, end of year	1,302,740	\$ 27.88	1,119,122	\$ 23.25	687,663	\$ 16.25

Under SFAS 123, TD Bank has elected to adopt on a prospective basis the fair value method of accounting for all stock option awards. Under this method TD Bank recognizes compensation expense based on the fair value of the options on the date of grant, which is determined using an option-pricing model. The fair value of the options is recognized over the vesting period of the options granted.

The Company has estimated the fair value of each option grant issued by TD Bank on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for options granted during the year: 2004; a dividend yield of 2.93%; expected volatility of 27.60%; risk-free interest rate of 4.58%; and an expected life of 6.26 years; 2003; a dividend yield of 3.5%; expected volatility of 33.79%; risk-free interest rate of 4.54%; and an expected life of 7.04 years for all grants; and 2002; a dividend yield of 3.7%; expected volatility of 40.3%; risk-free interest rate of 5.04%; and an expected life of 6.9 years for all grants.

The Company has recorded as compensation expense \$2,392 and \$1,650 for the fair value of the options granted to its employees in the years ended October 31, 2004 and 2003, respectively. In fiscal year 2002, the Company applied APB Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for its stock option plan and accordingly did not record compensation cost in the consolidated financial statements. Had the Company recognized compensation cost in accordance with SFAS No. 123, the Company's net income for 2002 would have been reduced by \$2,628.

**15. Commitments and Contingent Liabilities**

The Company leases office space and equipment under non-cancelable operating leases with third parties and affiliates extending for periods in excess of one year. The Company also sublets office space

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under non-cancelable subleases. Future minimum rental commitments under such leases as of October 31, 2004 are as follows:

	Leases	Subleases
<b>Year Ending October 31,</b>		
2005	\$ 36,737	\$ 1,363
2006	32,644	2,053
2007	27,466	2,613
2008	22,068	2,384
2009	17,998	2,042
Thereafter	53,680	1,658
	\$ 190,593	\$ 12,113

For the years ended October 31, 2004, 2003 and 2002 rental expense amounted to approximately \$42,345, \$51,088 and \$51,741 net of sublease income of \$2,320, \$1,337 and \$1,754 respectively.

At October 31, 2004, the Company's commitments to extend credit, which included credit cards as well as other consumer and commercial loans, amounted to \$57,924.

Securities sold, not yet purchased, represents obligations of the Company to purchase securities at a future date. The Company may incur a loss if the market value of the securities subsequently increases.

In the normal course of conducting its securities business, the Company has been named as a defendant in certain lawsuits, claims and legal actions. In the opinion of management, after consultation with outside legal counsel, the ultimate outcome of pending litigation and inquiries will not have a material adverse effect on the financial condition or results of operations of the Company.

## 16. Capital Adequacy

The Company and TDW Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct adverse material effect on the Company's and TDW Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and TDW Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The related capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to the Company.

Quantitative measures established by regulation to ensure capital adequacy require the Company and TDW Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of October 31, 2003 and October 31, 2004, the Company and TDW Bank met all capital adequacy requirements to which they are subject.

As of October 31, 2004, the most recent notification from the Office of the Comptroller of the Currency categorized TDW Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, TDW Bank must maintain minimum total risk-based, Tier I risk-based and leverage ratios as set forth in the table.



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The Company's and TDW Bank's actual capital amounts and ratios are also presented in the following table:

	Actual		Minimum Threshold for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of October 31, 2004</b>						
Total Capital (to Risk Weighted Assets):						
TDW Group	\$ 2,056,644	29.9%	\$ 549,989	8.0%	\$ 687,486	10.0%
TD Waterhouse Bank	520,573	57.7%	72,124	8.0%	90,155	10.0%
Tier I Capital (to Risk Weighted Assets):						
TDW Group	2,005,113	29.2%	274,994	4.0%	412,491	6.0%
TD Waterhouse Bank	519,973	57.7%	36,062	4.0%	54,093	6.0%
Tier I Capital (to Average Assets):						
TDW Group	2,005,113	10.5%	761,870	4.0%	952,338	5.0%
TD Waterhouse Bank	519,973	5.4%	387,696	4.0%	484,619	5.0%
<b>As of October 31, 2003</b>						
Total Capital (to Risk Weighted Assets):						
TDW Group	\$ 1,910,148	23.1%	\$ 661,426	8.0%	\$ 826,783	10.0%
TD Waterhouse Bank	362,736	86.5%	33,557	8.0%	41,946	10.0%
Tier I Capital (to Risk Weighted Assets):						
TDW Group	1,855,642	22.4%	330,713	4.0%	496,070	6.0%
TD Waterhouse Bank	361,036	86.7%	16,778	4.0%	25,168	6.0%
Tier I Capital (to Average Assets):						
TDW Group	1,855,642	12.3%	604,277	4.0%	755,346	5.0%
TD Waterhouse Bank	361,036	5.4%	270,071	4.0%	337,589	5.0%

TDB USA has maintained capital in excess of the capital adequacy requirements to which it is subject.

As registered broker-dealers and members of the New York Stock Exchange, TDW US and NISC are subject to the SEC's Uniform Net Capital rule (the Rule), which requires the maintenance of minimum net capital. At October 31, 2004, TDW US and NISC were both in compliance with their respective capital requirements. TDW US had net capital of \$29,215 at October 31, 2004, which was \$21,356 in excess of its required net capital. NISC had net capital of \$749,910 at October 31, 2004, which was \$673,233 in excess of its required net capital.

As a registered broker-dealer and a NASD member, TDW CM is also subject to the Rule. TDW CM has elected to use the basic method, permitted by the Rule, which requires that minimum net capital equal to the greater of \$1,000 or 6<sup>2</sup>/<sub>3</sub>% of aggregate indebtedness be maintained. At October 31, 2004, TDW CM had net capital of \$7,775, which was \$6,775 in excess of required capital.

TDW Canada is a member of the Investment Dealers Association of Canada ( IDA ) and is required to meet the risk-adjusted capital rules, which require the maintenance of minimum risk-adjusted capital of Cdn\$250 (US\$205 at October 31, 2004). At October 31, 2004, TDW Canada was in compliance with such requirements, with Cdn\$549,098 (US\$450,819) in excess of required capital.

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**17. Profit Sharing, 401(k) Plans and Other Stock-Based Compensation**

Prior to July 1, 2004, the Company maintained separate profit sharing and 401(k) plans. The Company's profit sharing plan (the Profit Sharing Plan), which became effective October 16, 1996, was a defined contribution retirement plan sponsored by the Company and was generally available to all U.S. employees of the Company, and any affiliated company thereof, which adopted the Profit Sharing Plan. The Profit Sharing Plan was an amendment, restatement and continuation of The Waterhouse Investor Services, Inc. Employee Stock Ownership Plan, which was in effect immediately prior to October 16, 1996. Effective July 1, 2004, the Company merged its profit sharing plan into its 401(k) plan, and the resulting plan was amended and restated and continued as the TD Waterhouse 401(k) Profit Sharing Plan (the Plan).

The amount of the Company's annual profit sharing contribution to the Plan is determined at the discretion of the Company's Board of Directors. The Company's contributions may be in the form of cash or shares of TD Bank. Funds in a participant's profit sharing account in the Plan may be invested in TD Bank stock and various mutual fund investments. The total expense recognized by the Company with respect to the Profit Sharing Plan for the years ended October 31, 2004, 2003 and 2002 was \$5,097, \$4,862 and \$6,809, respectively.

Historically, employees in the U.S. contributed to the Company's 401(k) plan, and since July 1, 2004, have contributed to the 401(k) portion of the Plan. In Canada, the Company has an Employee Savings Plan (ESP) in which employees of the Company in that country may participate. The Company makes matching contributions to the 401(k) portion of the Plan of one-half of the employee contribution up to 6% per pay period. Under the ESP, employees may contribute up to 6% of their annual base earnings to a maximum of Cdn\$5 (approximately US \$4) per calendar year toward the purchase of TD Bank common shares and the Company matches 50% of the employee contribution amount. The total expense recognized by the Company with respect to the 401(k) portion of the Plan and the ESP plan for the year ended October 31, 2004, 2003 and 2002 was approximately \$5,265, \$4,848 and \$4,506, respectively.

The Company also has restricted share unit plans offered to certain employees. Restricted share units are phantom share units with a value equivalent to the Toronto Stock Exchange closing price of TD Bank common shares on the day before the award issuance. These awards vest and mature on the third or fourth anniversary of the award date at the average of the high and low prices for the 20 trading days preceding the redemption date. The redemption value, after withholdings, is paid in cash. Under these plans participants are granted phantom share units equivalent to TD Bank's common stock that are cliff vested over three or four years. TD Bank administers the plans for the grants that were awarded for year 2000 and 2001 and invoices the company on a quarterly basis. The Company administers its own plans for grants that were awarded subsequent to 2001 and entered into swap contracts with TD Bank to mitigate the impact of changes in share price. The total expenses related to these plans recognized by the Company are \$8,725, \$9,489 and \$5,448 for the years ended October 31, 2004, 2003 and 2002, respectively. The approximate number of units outstanding under all the plans including unvested units at October 31, 2004, 2003 and 2002 is 850,802, 713,991 and 596,710, respectively, with an approximate value of \$33,403, \$23,067, and 11,415, respectively.

The Company also has share unit plans that are offered to certain employees. Under these plans participants are granted units of stock appreciation rights (SARs) equivalent to TD Bank's common stock that generally vest over four years. At the maturity date, the participant receives cash representing the appreciated value of the units between the grant date and the redemption date. A liability is established by the Company related to the share units awarded and an incentive compensation expense is recognized in the consolidated statements of operations over the vesting period. The number of phantom shares outstanding under this plan at October 31, 2004 and 2003 is 1,040,610 and 697,100, with an approximate value of \$9,104 and \$4,245, respectively. The total expense recognized by the Company for these share units for the years ended October 31, 2004 and 2003 was \$6,196 and \$4,497, respectively.

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A Senior Executive Deferred Share Unit Plan is offered to eligible executives of the Company. This is a deferred compensation plan which is administered mainly through a deferred share unit plan for the most senior executives of the Company. Under this plan, a percentage of earned annual cash incentive award is deferred into phantom deferred share units. The deferred share units will only be redeemed for cash in a period of time that follows the executive's departure from the Company, either through retirement or termination. As of October 31, 2004 and 2003, a total of 43,966 and 18,800 deferred share units were outstanding, respectively. The annual cash incentive award is recorded as compensation expense in the consolidated statements of operations in the year they are paid and the deferred portion is paid to TD Bank as the plan administrator. The Company paid \$45, \$17 and \$36 to TD Bank for the years ended October 31, 2004, 2003 and 2002, respectively, for the administering of the plan. The Company paid to TD Bank and recorded compensation expenses of \$90, \$150 and \$0 for the years ended October 31, 2004, 2003 and 2002, respectively, for the financial deferred share unit plan.

Substantially all of the Company's Canadian employees are eligible to participate in TD Bank's pension plan, which is a defined benefit plan funded by contributions from TD Bank and its members. Each year, actuarial valuations are made of the pension plans maintained by TD Bank to determine the present value of the accrued pension benefits. Pension plan assets are valued at market values. Pension costs are determined based upon separate actuarial valuations using the projected benefit method prorated on service and TD Bank management's estimates rather than on valuation for funding purposes. There is no separate actuarial valuation for the Company, but the Company is charged its portion of pension expense by TD Bank. Pension expense/(income) includes the cost of pension benefits for the current year's service, interest expense on pension liabilities, income on plan assets, and the amortization of pension adjustments on a straight-line basis over the expected average remaining service life of TD Bank's employee group. The company's pro-rata share of TD Bank's pension expense was \$2,900, \$2,939 and \$2,548 for the years ended October 31, 2004, 2003 and 2002, respectively.

**18. Income Taxes**

The Company and its U.S. subsidiaries file a consolidated Federal income tax return on a fiscal year basis. The Company recognizes both the current and future income tax consequences of all transactions that have been recognized in the financial statements. Future income tax assets and liabilities are determined based on tax rates that are expected to apply when the assets or liabilities are reported for tax purposes. The Company records a valuation allowance when it is not more likely than not that all of the future tax assets recognized will be realized prior to their expiration. At October 31, 2004, the Company has capital loss carryforwards of \$30,847 that expire in 2008, for which a 100% valuation allowance has been recorded. The Company has determined that it is not more likely than not that the loss carryforwards will be realized in future tax periods. The Company has determined that no valuation allowance against other deferred tax assets as at October 31, 2004 was necessary.

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The income tax provision consists of the following:

	<b>For the Year Ended October 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
		<b>(Restated)</b>	<b>(Restated)</b>
<b>Current:</b>			
U.S. Federal	\$ 34,261	\$ 17,421	\$ 4,528
U.S. Federal release of provision		(12,000)	
State and local	1,772	1,551	223
Foreign	55,182	32,431	21,291
<b>Total current</b>	<b>91,215</b>	<b>39,403</b>	<b>26,042</b>
<b>Deferred:</b>			
U.S. Federal	(3,762)	6,189	11,287
State and local	(215)	373	662
Foreign	(1,445)	(1,835)	1,491
<b>Total deferred</b>	<b>(5,422)</b>	<b>4,727</b>	<b>13,440</b>
<b>Total income tax expense</b>	<b>\$ 85,793</b>	<b>\$ 44,130</b>	<b>\$ 39,482</b>

The temporary differences, which have created deferred tax assets and liabilities, are detailed in the following:

	<b>As at October 31,</b>	
	<b>2004</b>	<b>2003</b>
		<b>(Restated)</b>
<b>Deferred tax asset current:</b>		
Accruals and allowances	\$ 27,062	\$ 11,538
Foreign operations	7,507	6,062
<b>Deferred tax asset</b>	<b>34,569</b>	<b>17,600</b>
<b>Deferred tax liability non-current net</b>		
Goodwill and other	(34,814)	(19,118)
Other comprehensive income	(40,769)	(22,921)
<b>Deferred tax liability</b>	<b>(75,583)</b>	<b>(42,039)</b>
<b>Total net deferred tax liability</b>	<b>\$ (41,014)</b>	<b>\$ (24,439)</b>

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The following is a reconciliation of the provision for income taxes on continuing operations and the amount computed by applying the Federal statutory rate to income before income taxes.

	<b>For the Year Ended October 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Federal statutory income tax rate	35.0%	35.0%	35.0%
Reduction of previously established reserve	(2.4)	(7.5)	
Provision for TDW Canada dividend	0.5		
State and local income taxes, net of Federal income tax benefit & other	0.6	1.3	1.0
Foreign provincial income taxes	0.9	(0.6)	(0.8)
Non-taxable foreign exchange gain	(0.8)		
Non-allowable foreign losses			12.5
Non-taxable stock compensation expense	0.1	5.6	
	<b>33.9%</b>	<b>33.8%</b>	<b>47.7%</b>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**19. Related Party Transactions**

The Company transacts business and has extensive relationships with TD Bank. Due to this relationship, it is possible that the terms of these transactions are not the same as terms that would result from transactions among unrelated parties. A description of these transactions and relationships is set forth below.

**General**

Directors, officers and employees of the Company maintain cash and margin accounts with the Company's broker-dealer subsidiaries and execute securities transactions through these firms in the ordinary course of business.

As more fully discussed in Note 18, the Company's U.S. operations are included in the consolidated federal income tax returns and combined state and local income tax returns of the Company filed in the United States and its Canadian operations are included in income tax returns filed by TD Bank or TD Securities Inc. in Canada. The provisions recorded by the Company for income taxes in the United States and Canada do not differ materially from the provisions that would have resulted had the Company filed separate income tax returns.

NISC provides clearing services to a U.S. affiliate of TD Bank. The income from this relationship was \$1,114, \$688 and \$857 for the years ended October 31, 2004, 2003 and 2002, respectively. These fees have been included in commissions and fees.

TDW US reimburses TD Bank for expenses that are paid on its behalf. Such expenses amounted to \$7,506, \$6,063 and \$1,434 for the years ended October 31, 2004, 2003 and 2002, respectively.

TDW Bank entered into cross currency interest rate swap contracts with TD Bank related to mortgage-backed securities purchased by TDW Bank from TD Bank. At October 31, 2004 and 2003, the Company, through TDW Bank, had 104 and 44 cross currency interest rate swap agreements outstanding with TD Bank, having a total notional principal amount of \$5,671,709 and \$4,747,896, respectively.

**International operations**

TDW Canada has securities, securities borrowing and lending, banking and underwriting activities with TD Bank and its affiliates. TDW Canada acts as the carrying broker for TDSI, under an introducing broker relationship. Due to brokers and dealers at October 31, 2004 and 2003 includes \$161,901 and \$227,779 due to TDSI, respectively. During the years ended October 31, 2004, 2003 and 2002, the company received fees of \$7,227, \$5,112 and \$4,921, respectively, from TDSI. TDW Canada also pays TD Bank a referral fee for customers introduced by TD Bank's retail bank branches, and provides clearing services to TD Bank.

At October 31, 2004 and 2003, Company cash held by affiliates was \$46,773 and \$19,999, respectively. For the years ended October 31, 2004, 2003 and 2002, cash deposits held with TD Bank earned total interest of \$805, \$262 and \$258, respectively.

TDW Canada has a Master Services Agreement with TD Bank, whereby TD Bank provides certain services to TDW Canada, and TDW Canada provides certain services to TD Bank. The amount of fees incurred by TDW Canada related to the aforementioned services for the years ended October 31, 2004, 2003 and 2002 was \$305,205, \$256,563 and \$134,398, respectively, and are included in the appropriate expense captions on the consolidated statement of income. At October 31, 2004 and 2003, amounts payable to TD Bank related to the aforementioned services is \$158,034 and \$119,299 respectively. Charges for these services are calculated on a cost recovery basis.

TDW Canada also entered into interest rate swap agreements with TD Bank related to mortgage-backed securities purchased by the Company from TD Bank. The notional amount of the interest rate swap is Cdn\$2,095,005 (US\$1,720,037) at October 31, 2004 and Cdn\$1,538,567 (US\$1,166,819) at

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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands, except share data)**

October 31, 2003. For the years ended October 31, 2004, 2003 and 2002 TDW Canada earned fixed rate interest on the mortgage backed securities of Cdn\$74,421 (US\$61,101), Cdn\$31,245 (US\$22,056), and Cdn\$23,675 (US\$15,073), respectively, which it delivered to TD Bank in return for floating rate interest of Cdn\$46,439 (US\$38,127), Cdn\$22,945 (US\$16,197), and Cdn\$12,188 (US\$7,759), respectively.

At October 31, 2004 and 2003, securities purchased under resale agreements of \$1,515,855 and \$1,492,896, respectively, consist of securities purchased from TD Bank with the commitment to resell the security to TD Bank at a specified price. At October 31, 2004 and 2003, included in interest income are amounts resulting from the difference between the cost of the purchase to TDW Canada and the proceeds received from TD Bank of Cdn\$27,654 (US\$22,704), and Cdn\$61,721 (US\$43,569), respectively.

TDW Canada entered into a cross-guarantee between TDW Canada, TDSI and the Investment Dealers Association of Canada, whereby TDW Canada and TDSI guarantee the payment and discharge of all indebtedness, obligations and liabilities of their customers in connection with their respective securities business. This guarantee is limited to the amount of regulatory capital of TDW Canada and TDSI.

TD Bank guarantees the liabilities of TDW Canada with respect to the customer security accounts and TDW Canada indemnifies TD Bank for any losses associated with this guarantee.

For the years ended October 31, 2004, 2003 and 2002, TD Bank charged TDW Bank \$1,689, \$1,639, and \$2,284, respectively, for the provision of services related to the call center, web development, and management and consulting services.

For the years ended October 31, 2004, 2003 and 2002, TD Bank charged TDW US, through its subsidiary call center in Canada, a fee of \$7,506, \$6,063 and \$1,434, respectively, for services provided to TDW US.

During the year, in the normal course of business, TDW Canada entered into certain transactions with officers and directors of TDW Canada and their related corporations. Included in the receivable from customers is Cdn\$6,958 (US\$5,713) at October 31, 2004, and Cdn\$4,753 (US\$3,605) at October 31, 2003, and in payable to customers is Cdn\$6,813 (US\$5,594) at October 31, 2004 and Cdn\$8,139 (US\$6,172) at October 31, 2003, respectively.

Payables to customers excludes cash deposits of Cdn\$2,706,555 (US\$2,222,131) at October 31, 2004 and Cdn\$2,399,312 (US\$1,819,590) at October 31, 2003 held in trust by affiliated companies. Interest earned on these deposits for the year ended October 31, 2004, 2003 and 2002 was Cdn\$60,018 (US\$49,276), Cdn\$64,293 (US\$45,385), and Cdn\$41,592 (US\$26,480), respectively.

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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands, except share data)**

Revenues and expenses resulting from the aforementioned transactions and relationships of the Company, which are included in the accompanying consolidated statements of income, are as follows:

	<b>For the Year Ended October 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
		<b>(Restated)</b>	<b>(Restated)</b>
<b>Revenues</b>			
Commissions and fees	\$ 47,497	\$ 14,255	\$ 14,705
Mutual fund and related revenue	3,390	2,890	23,878
Net interest revenue	46,199	125,572	56,705
<b>Total revenues</b>	<b>\$ 97,086</b>	<b>\$ 142,717</b>	<b>\$ 95,288</b>
<b>Expenses</b>			
Compensation and benefits	\$	\$	\$ 4,844
Occupancy and equipment	11,757	10,312	5,406
Professional fees	5,164	4,333	2,903
Other expenses	24,161	38,201	45,893
<b>Total expenses</b>	<b>\$ 41,082</b>	<b>\$ 52,846</b>	<b>\$ 59,046</b>

**20. International Operations**

The total net revenues, income before income taxes and minority interest, and assets (from continuing operations) of the Company's business by geographic region are summarized below:

	<b>For the Year Ended October 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
		<b>(Restated)</b>	<b>(Restated)</b>
<b>Total net revenues:</b>			
United States	\$ 765,327	\$ 694,634	\$ 673,138
Canada	631,155	510,353	441,691
Other	2	(14,523)	18,469
<b>Total</b>	<b>\$ 1,396,484</b>	<b>\$ 1,190,464</b>	<b>\$ 1,133,298</b>
<b>Income before income taxes and minority interest:</b>			
United States	\$ 105,523	\$ 94,677	\$ 45,225
Canada	147,493	90,328	80,425
Other	(1)	(25,628)	(32,453)

Total \$ 253,015 \$ 159,377 \$ 93,197

**At October 31,**

**2004**

**2003**

Assets:

United States	\$ 14,777,265	\$ 11,656,060
Canada	5,140,331	4,282,848
Other	861	801
<b>Total</b>	<b>\$ 19,918,457</b>	<b>\$ 15,939,709</b>

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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(in thousands, except share data)**

**21. Subsequent Events**

On March 30, 2005, the Company redeemed its Class B Common Stock shares outstanding, which were owned by a TD Bank affiliate, for approximately \$200,000, based on a preliminary valuation, subject to adjustment. Subsequently, the final valuation identified the value to be approximately \$41,400 lower than the preliminary estimate. As a result, a receivable was recorded as of April 30, 2005, as a due from affiliates in anticipation of the return of the excess amount paid. Such amount was received by the Company in August 2005.

On June 22, 2005, TD Bank entered into an Agreement of Sale and Purchase (the Purchase Agreement) with Ameritrade Holding Corporation (Ameritrade), pursuant to which Ameritrade agreed to purchase from TD Bank (the Share Purchase) all of the capital stock of the Company, in exchange for 193,600,000 shares of Ameritrade common stock and \$20,000 in cash. The shares of Ameritrade issuable to TD Bank in the Share Purchase will represent approximately 32% of the outstanding shares of Ameritrade after giving effect to the transaction.

The Purchase Agreement specifies that, prior to the consummation of the Share Purchase, the Company will conduct a reorganization in which it will transfer all of its non-US and non-brokerage businesses to TD Bank such that, at the time of consummation of the Share Purchase, the Company will retain only its U.S. retail securities brokerage business. The Company will distribute to TD Bank excess capital above thresholds specified in the Purchase Agreement, prior to the consummation of the Share Purchase.

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**TD WATERHOUSE GROUP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands)  
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2005	2004	2005	2004
<b>REVENUES</b>				
Interest income				
Margin loans	\$ 71,677	\$ 52,307	\$ 139,299	\$ 101,714
Investment securities	86,514	41,614	169,916	79,646
Other	34,871	19,495	58,777	41,806
<b>Total interest income</b>	193,062	113,416	367,992	223,166
Interest expense				
Interest bearing deposits	40,573	15,034	73,367	27,910
Deposits received for securities loaned	5,878	2,520	10,094	4,633
Customer deposits	21,831	9,937	41,083	23,496
Bank loans and overdrafts	39	83	199	202
Subordinated debt	498	498	996	996
<b>Total interest expense</b>	68,819	28,072	125,739	57,237
<b>Net interest income</b>	124,243	85,344	242,253	165,929
Non-interest income				
Commissions and fees	174,115	205,048	357,385	408,613
Gain on principal transactions	4,821	7,973	12,489	16,805
Loss on sale of available for sale securities	(94)	(2)	(99)	(3)
Mutual fund and related revenue	57,698	54,786	110,300	106,294
Fees from affiliates	17,234	11,635	33,337	22,034
Other	20,509	19,699	40,016	39,185
<b>Total non-interest income</b>	274,283	299,139	553,428	592,928
<b>Net revenue</b>	398,526	384,483	795,681	758,857
<b>Expenses</b>				
Employee compensation and benefits	152,289	135,208	306,921	263,216
Floor brokerage, exchange and clearing fees	35,764	28,491	71,473	58,384
Occupancy	19,012	15,883	37,550	32,140
Advertising and promotion	36,643	34,582	63,822	56,683
Depreciation and amortization	13,265	14,117	26,218	27,146
Equipment	10,065	9,418	18,087	19,100
Communications and data processing	12,488	14,869	26,249	30,611

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Professional fees	14,431	11,966	29,725	27,821
Stationery and postage	11,161	9,948	21,324	19,610
Other	9,752	24,806	25,662	48,144
<b>Total expenses</b>	<b>314,870</b>	<b>299,288</b>	<b>627,031</b>	<b>582,855</b>
Income before income taxes	83,656	85,195	168,650	176,002
Income tax provision	30,998	31,622	62,372	65,319
Income after taxes before minority interests	52,658	53,573	106,278	110,683
Minority interest in consolidated subsidiary	3,492	3,630	6,406	6,945
<b>Net income</b>	<b>\$ 49,166</b>	<b>\$ 49,943</b>	<b>\$ 99,872</b>	<b>\$ 103,738</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**TD WATERHOUSE GROUP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
(In thousands, except share and per share amounts)  
(Unaudited)

	April 30, 2005	October 31, 2004
<b>ASSETS</b>		
Cash and cash equivalents	\$ 248,362	\$ 222,716
Investment securities		
Held to maturity (market value of \$2,133,371 and \$2,830,814)	2,133,620	2,831,595
Available for sale, at market value	8,204,527	6,940,966
Trading securities owned, at market value	2,069,994	1,873,353
Restricted investment securities	46,756	32,695
Receivable from customers, net	5,305,206	5,069,332
Securities purchased under agreement to resell	837,039	1,515,855
Receivable from brokers and dealers	38,839	79,140
Deposits paid for securities borrowed	43,334	91,845
Deposits with clearing organizations	44,895	54,872
Loans, net of allowance for loan losses of \$600 and \$600	26,322	24,479
Receivable from affiliates	41,400	8,526
Furniture, equipment and leasehold improvements, at cost, net of accumulated depreciation of \$104,257 and \$98,697	128,073	123,933
Capitalized software, net of accumulated amortization of \$60,715 and \$67,263	32,944	30,637
Intangible assets	9,703	12,409
Goodwill, net of accumulated amortization	856,206	859,289
Deferred tax assets	34,044	34,569
Other assets	125,891	112,246
<b>Total assets</b>	<b>\$ 20,227,155</b>	<b>\$ 19,918,457</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

<b>Liabilities</b>		
Bank loans and overdrafts	\$ 65,653	\$ 43,309
Interest bearing deposits	9,398,500	8,631,570
Deposits received for securities loaned	1,260,836	1,081,561
Securities sold, not yet purchased, at market value	3,237	5,136
Payable to brokers and dealers	276,355	176,119
Payable to customers	5,503,917	5,391,422
Swap contracts with affiliates	434,182	726,837
Payable to affiliates	71,164	544,151
Non-interest bearing deposits	153	351
Taxes payable	24,643	27,144
Deferred tax liabilities	62,912	75,583
Accrued compensation and other liabilities	205,837	229,541

Liabilities qualifying as risk based capital subordinated debt with affiliate	30,000	30,000
<b>Total liabilities</b>	<b>17,337,389</b>	<b>16,962,724</b>
Minority interest	66,177	61,277
Commitments and contingent liabilities (Note 2)		
<b>Stockholders Equity</b>		
Preferred stock of subsidiaries, CDN\$1,000 par value: unlimited shares authorized, 17,100 shares issued and outstanding	11,829	11,829
Common stock, Class A, \$.01 par value: 355 million shares authorized, 352,944,959 shares issued and outstanding	3,530	3,530
Common stock, Class B, \$.01 par value: 18 million shares: authorized, 0 and 17,724,648 shares issued and outstanding, respectively		177
Additional paid-in capital	1,766,884	1,785,631
Retained earnings	984,760	1,024,776
Accumulated other comprehensive income	56,586	68,513
<b>Total stockholders equity</b>	<b>2,823,589</b>	<b>2,894,456</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 20,227,155</b>	<b>\$ 19,918,457</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**TD WATERHOUSE GROUP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Six Months Ended April 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 99,872	\$ 103,738
Depreciation and amortization	26,218	27,146
Minority interest in earnings of consolidated subsidiary	6,406	6,945
Provision for loan losses		237
Allowance for doubtful customer accounts	(506)	(4,420)
Net accretion of discount on investment securities held to maturity	(29,718)	(8,766)
Net amortization of discount on investment securities available for sale	930	80
Net increase in interest payable on swaps	(6,612)	(627)
Deemed contribution for stock compensation	141	214
(Increases) decreases in operating assets		
Trading investment securities	(261,070)	(71,824)
Securities purchased under agreements to resell	650,712	62,296
Deposits paid for securities borrowed	48,511	36,316
Receivable from brokers and dealers	39,602	(4,969)
Receivable from customers	(296,648)	(878,505)
Deposits with clearing organizations	9,631	(23,911)
Receivable from affiliates	8,523	
Deferred tax assets	284	5,924
Other assets	(14,690)	(36,596)
Increases (decreases) in operating liabilities		
Deposits received for securities loaned	179,275	281,689
Securities sold, not yet purchased	(1,849)	(2,672)
Payable to brokers and dealers	107,701	90,357
Payable to customers	239,457	55,471
Payable to affiliates	(469,129)	207,609
Taxes payable	(2,307)	10,074
Deferred tax liabilities	(3,373)	
Accrued compensation and other liabilities	(22,023)	(23,728)
 Cash provided by (used in) operating activities	 309,338	 (167,922)
<b>Cash flows from investing activities</b>		
Purchase of investment securities held to maturity	(81,658,677)	(84,002,556)
Proceeds from maturities of investment securities held to maturity	82,380,879	82,795,514
Purchase of investment securities available for sale	(2,224,070)	(2,131,980)
	672,980	1,172,018

Proceeds from maturities of investment securities available for sale		
Proceeds from sale of investment securities available for sale	6,360	7,505
Purchase restricted securities	(14,061)	(5,285)
Net (increase) decrease in loans	(1,843)	2,027
Purchase of furniture, equipment and leasehold improvements	(24,265)	(9,727)
Purchase of intangible assets		(2,011)
Capitalized software	(8,158)	(5,847)
Cash used in investing activities	(870,855)	(2,180,342)
<b>Cash flows from financing activities</b>		
Repayment of bank loans and overdrafts	22,344	39,935
Class B common stock redemption	(200,000)	
Net increase in interest bearing deposits	766,930	2,047,048
Net increase in non interest bearing deposits	(198)	13
Dividend paid on subsidiary preferred stock	(405)	(426)
Cash provided by financing activities	588,671	2,086,570
Effect of exchange rate differences in cash and cash equivalents	(1,508)	1,084
Increase in cash and cash equivalents	25,646	(260,610)
Cash and cash equivalents, beginning of period	222,716	420,825
Cash and cash equivalents, end of period	\$ 248,362	\$ 160,215
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 88,975	\$ 32,508
Cash paid for income taxes	\$ 80,831	\$ 55,870

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share data)**  
**(Unaudited)**

**1. Basis of Presentation**

The condensed consolidated financial statements include the accounts of TD Waterhouse Group, Inc. and its wholly owned subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated.

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in this filing for the fiscal years ended October 31, 2004 and 2003.

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

EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. In March 2004, the FASB reached a consensus regarding the application of an impairment model to determine whether investments are other-than-temporarily impaired. The provisions of this rule are required to be applied prospectively to all current and future investments accounted for in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. On September 15, 2004, the FASB issued proposed FASB Staff Position (FSP) EITF 03-01-a Implementation Guidance for the Application of Paragraph 16 EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP EITF 03-1-a) to provide guidance in the application of paragraph 16 EITF 03-1 to debt securities that are impaired because of interest rate and/or sector spread increases. On September 30, 2004, the FASB issued FSP EITF Issue 03-1-1 Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (FSP EITF 03-1-1), which deferred the effective date of the impairment measurement and recognition provisions contained in specific paragraphs of EITF 03-1 and expanded the scope of proposed FSP EITF 03-1 to include all securities, not only debt securities. The comment period for proposed FSP EITF 03-1-a ended on October 29, 2004 and the effective date has been deferred indefinitely. The Company does not expect the new rules to have a material impact on its results of operations at the time of adoption.

Effective November 1, 2002, the Company adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), prospectively to all employee awards granted, modified, or settled after November 1, 2002, in line with the adoption of SFAS 123 by its parent, TD Bank Financial Group. Therefore, the cost related to stock-based employee compensation included in the determination of net income is less than that which would have been recognized if the fair value method had been applied to all awards since the effective date of SFAS 123, (see note 3). The revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123R) was issued in December 2004. The Company is evaluating the new pronouncement and believes there would be no material impact on the Company's results of operations or financial condition.

**2. Net Capital**

The Company and TDW Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct adverse material effect on the Company's and TDW Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and TDW Bank must

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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except share data)  
(Unaudited) (Continued)

meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The related capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to the Company.

Quantitative measures established by regulation to ensure capital adequacy require the Company and TDW Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of April 30, 2005, the Company and TDW Bank met all capital adequacy requirements to which they are subject.

As of April 30, 2005, the most recent notification from the Office of the Comptroller of the Currency categorized TDW Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, TDW Bank must maintain minimum total risk-based, Tier I risk-based and leverage ratios as set forth in the table.

The Company's and TDW Bank's actual capital amounts and ratios are also presented in the following table:

	Actual		Minimum Threshold for Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of April 30, 2005</b>						
Total Capital (to Risk Weighted Assets):						
TDW Group	\$ 1,948,166	29.0%	\$ 537,722	8.0%	\$ 672,152	10.0%
TD Waterhouse Bank	615,852	74.1%	66,492	8.0%	83,115	10.0%
Tier 1 Capital (to Risk Weighted Assets):						
TDW Group	1,896,197	28.2%	268,861	4.0%	403,291	6.0%
TD Waterhouse Bank	615,252	74.0%	33,246	4.0%	49,869	6.0%
Tier 1 Capital (to Average Assets):						
TDW Group	1,896,197	9.8%	772,622	4.0%	965,777	5.0%
TD Waterhouse Bank	615,252	5.7%	428,935	4.0%	536,169	5.0%
<b>As of April 30, 2004</b>						
Total Capital (to Risk Weighted Assets):						
TDW Group	1,974,068	28.8%	549,022	8.0%	686,277	10.0%
TD Waterhouse Bank	491,223	68.0%	57,773	8.0%	72,216	10.0%
Tier 1 Capital (to Risk Weighted Assets):						
TDW Group	1,915,315	27.9%	274,511	4.0%	411,766	6.0%
TD Waterhouse Bank	489,498	67.8%	28,886	4.0%	43,329	6.0%

Tier 1 Capital (to Average Assets):

TDW Group	1,915,315	11.0%	698,243	4.0%	872,804	5.0%
TD Waterhouse Bank	489,198	5.6%	347,373	4.0%	434,216	5.0%

TDB USA has maintained capital in excess of the capital adequacy requirements to which it is subject.

As registered broker-dealers and members of the New York Stock Exchange, TDW US and NISC are subject to the SEC's Uniform Net Capital rule (the Rule ), which requires the maintenance of

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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except share data)  
(Unaudited) (Continued)

minimum net capital. At April 30, 2005, TDW US and NISC were both in compliance with their respective capital requirements. TDW US had net capital of \$33,995 at April 30, 2005 which was \$27,473 in excess of its required net capital. NISC had net capital of \$504,954 at April 30, 2005 which was \$430,451 in excess of its required net capital.

As a registered broker-dealer and a NASD member, TDW CM is also subject to the Rule, which requires the maintenance of minimum net capital. TDW CM has elected to use the basic method, permitted by the Rule, which requires that minimum net capital equal to the greater of \$1,000 or 6<sup>2</sup>/<sub>3</sub>% of aggregate indebtedness be maintained. At April 30, 2005, TDW CM had net capital of \$8,269 which was \$7,269 in excess of required capital.

TDW Canada is a member of the Investment Dealers Association of Canada ( IDA ) and is required to meet the risk-adjusted capital rules, which require the maintenance of minimum risk-adjusted capital of Cdn\$250 (US\$198,700 at April 30, 2005). At April 30, 2005 TDW Canada was in compliance with such requirements, with Cdn\$573,300 (US\$457,100) in excess of required capital.

**3. Stock Based Compensation**

Effective November 1, 2002, the Company adopted the fair value based method of accounting for stock-based compensation under SFAS No. 123, using the prospective transition method of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123. Stock-based employee compensation expense for the three months and six months ended April 30, 2005 was \$510 and \$1,080, respectively. Pro forma information regarding stock-based compensation expense and net income is required by SFAS No. 148. This information is presented as if the Company had accounted for its stock-based awards under the fair value method for all periods:

	2005	2004
<b>For the six month period ended April 30,</b>		
Net income, as reported	\$ 99,872	\$ 103,738
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	723	706
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(857)	(1,166)
Pro forma net income	\$ 99,738	\$ 103,278

**4. Comprehensive Income**

SFAS No. 130, Reporting Comprehensive Income, establishes standards for the reporting and display of comprehensive income, which includes net income and changes in equity except those resulting from investments by, or distributions to, stockholders. Comprehensive income is as follows:

	2005	2004
<b>For the six month period ended April 30,</b>		
Net income, as reported	\$ 99,872	\$ 103,738
Net change in appreciation on investment securities, available for sale, held by bank subsidiaries net of related tax effects	(4,472)	(641)
Translation adjustment arising during the period, net of related tax effects	48,332	22,119

Total comprehensive income	\$ 143,732	\$ 125,216
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**TD WATERHOUSE GROUP, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share data)**  
**(Unaudited) (Continued)**

**5. Income Taxes**

On October 22, 2004 the President of the United States signed the American Jobs Creation Act of 2004, which gives a temporary incentive for U.S. companies to repatriate accumulated foreign earnings with a potential 85% dividend received deduction. The dividend received deduction is subject to a number of limitations, including a requirement to re-invest the dividend in the United States. The dividend received deduction could be used by the Company in either year ended October 31, 2004 or 2005. The dividend received deduction was not utilized during fiscal year 2004.

Because of available foreign tax credits, the Company's preliminary evaluations indicate that it will not utilize the American Jobs Creation Act of 2004 dividend received deduction. However, that evaluation may not be completed until the income tax return is filed in July 2006.

**6. Equity**

On March 30, 2005, the Company redeemed its Class B Common Stock shares outstanding, which were owned by a TD Bank affiliate, for approximately \$200,000, based on a preliminary valuation, subject to adjustment. Subsequently, the final valuation identified the value to be approximately \$41,400 lower than the preliminary estimate. As a result, a receivable was recorded as of April 30, 2005, as a due from affiliates in anticipation of the return of the excess amount paid. Such amount was received by the Company in August 2005.

**7. Commitments and Contingent Liabilities**

On December 7, 2004, the Company signed a fifteen year lease at 32 Old Slip in downtown Manhattan to house its New York operations. Rent payments on this operating lease begin in July, 2006 and end at its contractual end of February, 2021, with a provision for two five year renewal options at the Company's discretion. Payments under this lease are as follows:

**Year Ending October 31,**

2006	\$	479
2007		4,095
2008		4,395
2009		4,433
2010		4,537
Thereafter		53,049
<b>Total</b>	<b>\$</b>	<b>70,988</b>

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**TD WATERHOUSE GROUP, INC.**  
**MANAGEMENT'S DISCUSSION AND**  
**ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Key Metrics**  
*US*

	<b>Six Months Ended April 30,</b>		
	<b>2005</b>	<b>2004</b>	<b>% Change</b>
<b>Average trades per day</b>			
Online	66,603	83,120	(20)%
Touch-tone	695	1,007	(31)%
Agent	8,354	8,179	2%
<b>Total daily average trades</b>	<b>75,652</b>	<b>92,306</b>	<b>(18)%</b>
Average commission per trade	\$ 16.01	\$ 17.64	(9)%
Average margin loans (\$billions)	\$ 3.6	\$ 3.6	0%
Active accounts ending (millions)	2.1	2.1	0%

	<b>Fiscal Year Ended October 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>% Change</b>
<b>Average trades per day</b>			
Online	67,386	63,361	6%
Touch-tone	794	837	(5)%
Agent	7,392	6,429	15%
<b>Total daily average trades</b>	<b>75,572</b>	<b>70,627</b>	<b>7%</b>
Average commission per trade	\$ 17.50	\$ 17.90	(2)%
Average margin loans (\$billions)	\$ 3.5	\$ 2.5	40%
Active accounts ending (millions)	2.1	2.1	0%

	<b>Fiscal Year Ended October 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>% Change</b>
<b>Average trades per day</b>			
Online	63,361	61,795	3%
Touch-tone	837	1,028	(19)%
Agent	6,429	7,626	(16)%

Total daily average trades	70,627	70,449	0%
Average commission per trade	\$ 17.90	\$ 17.65	(1)%
Average margin loans (\$billions)	\$ 2.5	\$ 2.6	(4)%
Active accounts ending (millions)	2.1	2.2	(5)%

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	<b>2005</b>	<b>2004</b>	<b>% Change</b>
<b>Average trades per day</b>			
Online	22,538	25,857	(13)%
Touch-tone	672	965	(30)%
Agent	16,221	14,928	9%
Total daily average trades	39,431	41,750	(6)%
Average commission per trade	\$ 41.34	\$ 39.49	5%
Average margin loans (\$billions)	\$ 1.8	\$ 1.5	20%
Active accounts ending (millions)	0.8	0.8	0%

**Fiscal Year Ended October 31,**

	<b>2004</b>	<b>2003</b>	<b>% Change</b>
<b>Average trades per day</b>			
Online	21,278	16,590	28%
Touch-tone	773	711	9%
Agent	13,334	12,318	8%
Total daily average trades	35,385	29,619	19%
Average commission per trade	\$ 39.43	\$ 39.15	1%
Average margin loans (\$billions)	\$ 1.6	\$ 1.1	45%
Active accounts ending (millions)	0.8	0.8	0%

**Fiscal Year Ended October 31,**

	<b>2003</b>	<b>2002</b>	<b>% Change</b>
<b>Average trades per day</b>			
Online	16,590	14,589	14%
Touch-tone	711	831	(14)%
Agent	12,318	9,069	36%
Total daily average trades	29,619	24,489	21%
Average commission per trade	\$ 39.15	\$ 31.46	24%

Average margin loans (\$billions)	\$	1.1	\$	0.9	22%
Active accounts ending (millions)		0.8		0.7	14%

*Combined (US & Canada)***Six Months Ended April 30,**

		<b>2005</b>	<b>2004</b>	<b>% Change</b>	
<b>Average trades per day</b>					
Online		89,141	108,977	(18)%	
Touch-tone		1,367	1,972	(31)%	
Agent		24,575	23,107	6%	
Total daily average trades		115,083	134,056	(14)%	
Average commission per trade	\$	24.69	\$	24.44	1%
Average margin loans (\$billions)	\$	5.4	\$	5.1	6%
Active accounts ending (millions)		2.9		2.9	0%

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	<b>Fiscal Year Ended October 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>% Change</b>
<b>Average trades per day</b>			
Online	88,664	79,951	11%
Touch-tone	1,567	1,548	1%
Agent	20,726	18,747	11%
<b>Total daily average trades</b>	<b>110,957</b>	<b>100,246</b>	<b>11%</b>
Average commission per trade	\$ 24.54	\$ 24.18	1%
Average margin loans (\$billions)	\$ 5.1	\$ 3.6	42%
Active accounts ending (millions)	2.9	2.9	0%

	<b>Fiscal Year Ended October 31,</b>		
	<b>2003</b>	<b>2002</b>	<b>% Change</b>
<b>Average trades per day</b>			
Online	79,951	76,384	5%
Touch-tone	1,548	1,859	(17)%
Agent	18,747	16,695	12%
<b>Total daily average trades</b>	<b>100,246</b>	<b>94,938</b>	<b>6%</b>
Average commission per trade	\$ 24.18	\$ 21.21	14%
Average margin loans (\$billions)	\$ 3.6	\$ 3.5	3%
Active accounts ending (millions)	2.9	2.9	0%

**Results of Operations*****Six Months Ended April 30, 2004 Compared to Six months Ended April 30, 2005***

Net income after minority interest decreased 4 percent from \$103.7 million for the first six months of fiscal year 2004 to \$99.9 million for the comparable period in fiscal year 2005 mainly due to a reduction in trading activity, which was offset by an increase in net interest income. Total net revenues increased 5 percent from \$758.9 million for the first six months of fiscal year 2004 to \$795.7 million for the comparable period in fiscal year 2005, as the decline in commission income was more than offset by the increase in net interest income largely due to an increase in the net interest rate spread on deposits, which is calculated by subtracting the weighted average cost of average interest-bearing liabilities from the weighted average yield on average interest-earning assets. Operating expenses increased 8 percent from \$582.9 million for the first six months of fiscal year 2004 to \$627.0 million for the comparable period in fiscal year 2005 largely due to an increase in employee compensation and benefits expenses.

***Net Revenues***

Commissions and fees include commissions earned for executing customer trades, payments received for order flow, and fees for providing clearance services. Commissions and fees decreased 13 percent from \$408.6 million for

the first six months of fiscal year 2004 to \$357.4 million for the comparable period in fiscal year 2005 primarily due to a 14 percent decrease in average trades per day from 134,056 to 115,083, which was partially offset by a 1 percent increase in average commission per trade from \$24.44 to \$24.69. In the US, average trades per day decreased 18 percent from 92,306 for the first six months of fiscal year 2004 to 75,652 for the comparable period in fiscal year 2005, while average commission per trade was down 9 percent from \$17.64 to \$16.01, as we lowered commissions for certain segments of our customer base to stay in line with competition. In Canada, average trades per day decreased 6 percent from 41,750 for the first six months of fiscal year 2004 to 39,431 for the comparable period in fiscal year 2005, while average commission per trade increased 5 percent from \$39.49 to \$41.34 due to an increase in investment advice trades that generate higher commissions.

Mutual fund and related revenue represents fees from third party mutual funds and funds managed by an affiliated investment advisor. Such fees are primarily based on the daily net asset value of our

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proprietary and third-party money market and mutual funds. Mutual fund and related revenue increased 4 percent from \$106.3 million for the first six months of fiscal year 2004 to \$110.3 million for the comparable period in fiscal year 2005. In the US, proprietary money market and mutual funds revenues decreased 10 percent from \$63.2 million for the first six months of fiscal year 2004 to \$57.2 million for the comparable period in fiscal year 2005 due to a \$10.5 million decrease in proprietary money market funds revenue resulting from the migration of customer assets from off-balance sheet proprietary money market accounts to the on-balance sheet FDIC insured money market fund. The revenue from the FDIC insured money market fund is reported in net interest revenue. This decrease in US proprietary money market and mutual funds revenues was partially offset by an increase of third-party mutual fund fees of \$4.2 million. In Canada, mutual fund trailer fees received from external fund companies increased 23 percent from \$43.0 million for the first six months of fiscal year 2004 to \$52.9 million for the comparable period in fiscal year 2005 as a result of an increase in the sale of mutual funds. In Canada, mutual fund assets under administration increased 10 percent from \$10.1 billion as of April 2004 to \$11.1 billion as of April 2005.

Gain on principal transactions mainly consists of proprietary trading as a NASDAQ registered market maker and specialist of listed and OTC securities. Gain on principal transactions decreased 26 percent from \$16.8 million for the first six months of fiscal year 2004 to \$12.5 million for the comparable period in fiscal year 2005 primarily due to lower trading volumes and decreased spreads.

Other revenues consist of various fees we collect from customers, such as account maintenance fees, fees from affiliates which are primarily mutual fund trailer fees received by TD Waterhouse Canada from TD Asset Management, and gain or loss on sale of available for sale securities. Other revenues increased 20 percent from \$61.2 million for the first six months of fiscal year 2004 to \$73.3 million for the comparable period in fiscal year 2005. Fees from affiliates increased 51 percent from \$22.0 million for the first six months of fiscal year 2004 to \$33.3 million for the comparable period in fiscal year 2005. The increase was largely attributable to a 19 percent increase in total assets under administration for TD Asset Management from \$9.9 billion as of April 30, 2004 to \$11.8 billion as of April 30, 2005. Loss on available for sale securities was immaterial for the first six months of fiscal year 2004 and the comparable period in fiscal year 2005. Other revenues were nearly unchanged, going from \$39.2 million for the first six months of fiscal year 2004 to \$40.0 million for the comparable period in fiscal year 2005 in the US and Canada.

Interest revenue consists of interest earned on interest-earning assets (primarily customer margin balances and investment securities). Interest revenue increased 65 percent from \$223.2 million for the first six months of fiscal year 2004 to \$368.0 million for the comparable period in fiscal year 2005 primarily due to a 75 percent increase in the average investment rate earned from 1.44 percent to 2.52 percent, as well as a 27 percent increase in average investment securities balances from \$10.2 billion to \$13.0 billion. Average customer margin balances increased 6 percent from \$5.1 billion for the first six months of fiscal year 2004 to \$5.4 billion for the comparable period in fiscal year 2005, while average margin yield increased 32 percent from 3.93 percent for the first six months of fiscal year 2004 to 5.18 percent for the comparable period in fiscal year 2005. In the US, average customer margin balances remained flat at \$3.6 billion, while average margin yield increased 45 percent from 3.63 percent for the first six months of fiscal year 2004 to 5.26 percent for the comparable period in fiscal year 2005 due to several increases in the short-term federal funds rate by the Federal Reserve during the period. Investment securities balances increased 40 percent from \$7.2 billion for the first six months of fiscal year 2004 to \$10.1 billion for the comparable period in fiscal year 2005 largely due to the migration of a portion of our customer assets from off-balance sheet proprietary money market balances to the FDIC insured money market accounts on TD Waterhouse Bank's balance sheet, while the average interest rate earned on investment securities increased 116 percent from 1.16 percent to 2.51 percent. In Canada, average customer margin balances increased 20 percent from \$1.5 billion for the first six months of fiscal year 2004 to \$1.8 billion for the comparable period in fiscal year 2005, while average margin yield increased 8 percent from 4.64 percent to 5.03 percent, and average investment securities balances decreased 4 percent from \$3.0 billion to \$2.9 billion, while average rate earned on investment securities increased 20 percent from 2.13 percent to 2.55 percent.



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Interest expense consists of interest paid on interest-bearing liabilities, primarily customer deposits, deposits received for securities loaned, and other borrowings. Total interest expense increased 120 percent from \$57.2 million for the first six months of fiscal year 2004 to \$125.7 million for the comparable period in fiscal year 2005, as total deposits increased 27 percent from \$11.3 billion to \$14.4 billion and the average interest rate paid on deposits increased by 134 percent from 0.47 percent to 1.10 percent. In the US, average interest-bearing customer deposits increased 36 percent from \$7.7 billion for the first six months of fiscal year 2004 to \$10.5 billion for the comparable period in fiscal year 2005, as we continued to migrate a portion of our customer assets from off-balance sheet proprietary money market balances to the FDIC insured money market accounts on TD Waterhouse Bank's balance sheet, while the average interest rate paid on deposits increased 664 percent from 0.11 percent to 0.84 percent in large part due to the rising interest rate environment. In Canada average deposit balances increased 11 percent from \$3.6 billion for the first six months of fiscal 2004 to \$4.0 billion for the comparable period in fiscal 2005, while the average interest rate increased 40 percent from 1.26 percent to 1.77 percent.

*Operating Expenses*

Employee compensation and benefits increased 17 percent from \$263.2 million for the first six months of fiscal year 2004 to \$306.9 million for the comparable period in fiscal year 2005. In the US, the increase was primarily attributable to merit increases of \$3.0 million, an increase in variable compensation plan expense of \$2.0 million due to increases in TD Bank's stock price, and \$4.0 million in severance expense due to the closing of the San Diego Call Center. In Canada, the increase was due to \$6.0 million for the salaries and benefits costs for 109 new Financial Planners and \$13.0 million for the implementation of a new compensation model in the full service brokerage and advisory businesses in addition to an increase in commission payouts in conjunction with increased commissionable revenues. Also included was an \$8.5 million increase for moving back-office support operations from another entity within TD Bank to TD Waterhouse Canada.

Floor brokerage, exchange and clearing fees expense increased 22 percent from \$58.4 million for the first six months of fiscal year 2004 to \$71.5 million for the comparable period in fiscal year 2005 primarily due to \$10.8 million in new services provided by TD Waterhouse Canada to support non-brokerage business.

Occupancy expense increased 17 percent from \$32.1 million for the first six months of fiscal year 2004 to \$37.6 million for the comparable period in fiscal year 2005 in part due to a \$1.0 million increase in property maintenance costs in the US. In Canada, the increase was due to \$1.0 million in occupancy costs for 109 new Financial Planners and \$1.3 million in new services provided by TD Waterhouse Canada to support non-brokerage business.

Advertising and marketing expense increased 13 percent from \$56.7 million for the first six months of fiscal year 2004 to \$63.8 million for the comparable period in fiscal year 2005 due to management's determination to increase discretionary advertising spending.

Depreciation and amortization expense decreased 3 percent from \$27.1 million for the first six months of fiscal year 2004 to \$26.2 million for the comparable period in fiscal year 2005 due to reduced capital spending in the first half of fiscal year 2005.

Equipment expense decreased 5 percent from \$19.1 million for the first six months of fiscal year 2004 to \$18.1 million for the comparable period in fiscal year 2005 primarily due to lower equipment rental costs and savings on data-lines.

Communications and data processing expense decreased 14 percent from \$30.6 million for the first six months of fiscal year 2004 to \$26.2 million for the comparable period in fiscal year 2005 largely due to savings as a result of the MCI contract re-negotiations.

Professional fees expense increased 7 percent from \$27.8 million for the first six months of fiscal year 2004 to \$29.7 million for the comparable period in fiscal year 2005 in part due to \$1.4 million in new services provided by TD Waterhouse Canada to support non-brokerage business.

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Stationery and postage expense increased 9 percent from \$19.6 million for the first six months of fiscal year 2004 to \$21.3 million for the comparable period in fiscal year 2005 largely due to \$1.9 million in new services provided by TD Waterhouse Canada to support the non-brokerage business.

Other expenses decreased 46 percent from \$48.1 million for the first six months of fiscal year 2004 to \$25.7 million for the comparable period in fiscal year 2005 due to the recoveries for the new services provided by TD Waterhouse Canada to support the non-brokerage business that were largely expensed under employee compensation and benefits (\$8.5 million), execution and clearing (\$10.8 million), occupancy (\$1.3 million), stationery and postage (\$1.9 million), and professional fees (\$1.4 million).

***Fiscal Year Ended October 31, 2003 Compared to Fiscal Year Ended October 31, 2004***

Net income after minority interest increased 253 percent from \$44.8 million in fiscal year 2003 to \$158.1 million in fiscal year 2004 partly due to improved operating performance, as discussed later in this section, but primarily because fiscal year 2003 included a \$54.9 million net loss from discontinued operations, as we eliminated loss-generating investments in Australia, Europe and Hong Kong. Total net revenues increased 17 percent from \$1.2 billion in fiscal year 2003 to \$1.4 billion in fiscal year 2004 largely due to increased trading volumes and margin loan balances, while operating expenses increased 11 percent from \$1.0 billion in fiscal year 2003 to \$1.1 billion in fiscal year 2004 mainly due to increased employee compensation costs and advertising and marketing spending.

***Net Revenues***

Commissions and fees increased 4 percent from \$653.2 million in fiscal year 2003 to \$681.9 million in fiscal year 2004 primarily due to an 11 percent increase in average trades per day from 100,246 to 110,957 and a 1 percent increase in average commissions per trade from \$24.18 to \$24.54. This was partially offset by the reclassification of proprietary mutual fund investment management fees in 2004 totaling \$34.6 million from commissions and fees to mutual fund revenues. Also, fiscal year 2003 included \$3.5 million in revenue for providing clearance services to Trimark Securities. In the US, average trades per day increased 7 percent from 70,627 in fiscal year 2003 to 75,572 in fiscal year 2004, while the average commission per trade was down 2 percent from \$17.90 to \$17.50. In Canada, average trades per day increased 19 percent from 29,619 in fiscal year 2003 to 35,385 in fiscal year 2004, while the average commission per trade increased slightly from \$39.15 to \$39.43.

Mutual fund and related revenue increased 40 percent from \$144.7 million in fiscal year 2003 to \$202.7 million in fiscal year 2004. This was in part due to the reclassification of \$34.6 million of proprietary mutual fund investment management fees from commissions and fees in fiscal year 2003 to mutual fund revenues in fiscal year 2004. In the US, proprietary and non-proprietary mutual fund revenues increased by \$2.7 million due to a slight increase in net assets. In Canada, mutual fund trailer fees received from external fund companies increased 33 percent from \$61.7 million in fiscal 2003 to \$82.3 million in fiscal 2004 as a result of strong mutual fund sales activity. Assets under administration for mutual funds increased 25 percent from \$8.7 billion in fiscal year 2003 at 2004 exchange rate to \$9.4 billion in fiscal year 2004.

Gain on principal transactions increased 61 percent from \$21.1 million in fiscal year 2003 to \$34.0 million in fiscal year 2004 primarily due to the internalization of a larger portion of our order flow and the expansion of our external customer base.

Total other revenues increased 39 percent from \$90.2 million in fiscal year 2003 to \$125.0 million in fiscal year 2004. Fees from affiliates increased 61 percent from \$30.0 million in fiscal year 2003 to \$48.2 million in fiscal year 2004. The increase was largely attributable to a 27 percent increase in assets under administration for TD Asset Management from \$7.5 billion in fiscal year 2003 at 2004 exchange rate to \$9.5 billion in fiscal year 2004. Loss on available for sale securities decreased 73 percent from \$0.8 million in fiscal year 2003 to \$0.2 million in fiscal year 2004. Other revenues increased 26 percent from \$61.0 million in fiscal year 2003 to \$77.0 million in fiscal year 2004 in part due to an increase in foreign exchange spread and fees earned by the Investment Advice group in Canada.

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Interest revenue increased 24 percent from \$384.8 million in fiscal year 2003 to \$478.1 million in fiscal year 2004 primarily due to a 42 percent increase in average customer margin balances from \$3.6 billion to \$5.1 billion and an 18 percent increase in average investment securities balances from \$9.4 billion to \$11.1 billion. Average margin yield decreased 3 percent from 4.24 percent in fiscal year 2003 to 4.11 percent in fiscal year 2004, while the average interest rate received on investment securities decreased slightly from 1.81 percent to 1.80 percent. In the US, average customer margin balances increased 40 percent from \$2.5 billion in fiscal year 2003 to \$3.5 billion in fiscal year 2004 in part due to improved investor confidence in the market, while average margin yield increased 3 percent from 3.83 percent to 3.95 percent. Average investment securities balances in the US increased 27 percent from \$6.4 billion in fiscal year 2003 to \$8.1 billion in fiscal year 2004 largely due to the migration of customer assets from off-balance sheet proprietary money market accounts to the on-balance sheet FDIC insured money market fund, while the average interest rate earned on investment securities decreased 3 percent from 1.38 percent to 1.34 percent. In Canada, average customer margin balances increased 45 percent from \$1.1 billion in fiscal year 2003 to \$1.6 billion in fiscal year 2004, while the average margin yield decreased 14 percent from 5.18 percent to 4.48 percent. There were no significant changes in the investment securities revenues in Canada.

Interest expense increased 21 percent from \$103.5 million in fiscal year 2003 to \$125.3 million in fiscal year 2004 primarily due to a 24 percent increase in average interest-bearing customer deposits from \$9.9 billion to \$12.3 billion due to the movement of customer assets from off-balance sheet proprietary money market accounts to the on-balance sheet FDIC insured money market fund. This was offset by a 31 percent decrease in the average rate paid on deposits from 0.68 percent in fiscal year 2003 to 0.47 percent in fiscal year 2004. In the US, average interest-bearing customer deposits increased 26 percent from \$6.9 billion in fiscal year 2003 to \$8.7 billion in fiscal year 2004, while the average interest rate paid decreased 14 percent from 0.21 percent to 0.18 percent. In Canada, average interest-bearing customer deposits increased 20 percent from \$3.0 billion in fiscal year 2003 to \$3.6 billion in fiscal year 2004, while the average interest rate paid decreased 34 percent from 1.77 percent to 1.17 percent.

*Operating Expenses*

Employee compensation and benefits expense increased 15 percent from \$456.6 million in fiscal year 2003 to \$527.2 million in fiscal year 2004 largely due to increases in incentive compensation as a result of our increased profits, temporary help added during fiscal year 2004 to accommodate increased client trading volumes, and a \$7.0 million charge for executive severance.

Floor brokerage, exchange and clearing fees expense increased 21 percent from \$86.5 million in fiscal year 2003 to \$104.6 million in fiscal year 2004 due to higher client trading volumes and a \$10.1 million reclassification of brokerage and exchange fees to the floor brokerage, exchange and clearing fees expense category, previously reported in the communication and data processing category. Also, fiscal year 2003 included a \$3.7 million sale of unsecured receivables, which were previously fully reserved.

Occupancy expense decreased 5 percent from \$71.8 million in fiscal year 2003 to \$68.4 million in fiscal year 2004 largely due to the closing of 13 branches.

Advertising and marketing expense increased 37 percent from \$66.8 million in fiscal year 2003 to \$91.3 million in fiscal year 2004, as spending on advertising campaigns increased due to an effort to increase the number of new accounts.

Depreciation and amortization expense increased 1 percent from \$55.7 million in fiscal year 2003 to \$56.2 million in fiscal year 2004 due to a slight increase in capital spending.

Equipment expense increased 3 percent from \$37.8 million in fiscal year 2003 to \$39.0 million in fiscal year 2004 due to higher capital spending.

Communications and data processing expense decreased 26 percent from \$77.4 million in fiscal year 2003 to \$57.5 million in fiscal year 2004, as fiscal year 2004 included a \$10.1 million reclassification of miscellaneous brokerage and exchange fees from the data processing and communication category to the

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execution and clearing category. Communication costs also decreased \$6.0 million due to the renegotiation of long distance and data network contracts.

Professional fees expense increased 36 percent from \$43.0 million in fiscal year 2003 to \$58.3 million in fiscal year 2004 largely due to credit investigations for PATRIOT Act regulations, legal and consulting expenses related to potential merger activity, and legal expenses and technology consulting due to the integration of our active trader platform.

Stationery and postage expense increased 10 percent from \$33.8 million in fiscal year 2003 to \$37.0 million in fiscal year 2004 primarily due to increased customer mailings in conjunction with increased marketing efforts.

Other expenses increased 2 percent from \$101.8 million in fiscal year 2003 to \$103.8 million in fiscal year 2004 primarily due to a recognition of a legal contingency of \$4.0 million in the U.S. and a \$4.6 million Investment Dealers Association of Canada litigation settlement. Also, fiscal year 2003 included \$5.0 million in accruals for legal contingencies and write-offs of uncollectible receivables.

***Fiscal Year Ended October 31, 2002 Compared to Fiscal Year Ended October 31, 2003***

Net income after minority interest increased 26 percent from \$35.4 million in fiscal year 2002 to \$44.8 million in fiscal year 2003 due to improved operating results, as discussed later in this section. Net revenues increased 9 percent from \$1.1 billion in fiscal year 2002 to \$1.2 billion in fiscal year 2003 mainly due to increased commissions, net interest income and mutual fund revenues. Operating expenses remained unchanged at \$1.0 billion.

***Net Revenues***

Commissions and fees increased 14 percent from \$573.6 million in fiscal year 2002 to \$653.2 million in fiscal year 2003 primarily due to a 6 percent increase in average trades per day from 94,938 to 100,246, and a 14 percent increase in average commissions per trade from \$21.21 to \$24.18. In the US, average trades per day increased slightly from 70,449 in fiscal year 2002 to 70,627 in fiscal year 2003, and average commission per trade increased 1 percent from \$17.65 to \$17.90. In Canada, average trades per day increased 21 percent from 24,489 in fiscal year 2002 to 29,619 in fiscal year 2003, while average commission per trade increased 24 percent from \$31.46 to \$39.15. For fiscal year 2002, commission and fee revenue relating to the merger of entities under common control is reflected in other revenue as described below. Also, fiscal year 2002 included \$23.6 million of commissions and fees for the UK operations that were discontinued in June 2002.

Mutual fund and related revenue increased 27 percent from \$113.7 million in fiscal year 2002 to \$144.7 million in fiscal year 2003. In the US, mutual fund and related revenue increased 6 percent from \$78.3 million in fiscal year 2002 to \$83.0 million in fiscal year 2003. During fiscal year 2003, we held in excess of \$5.9 billion in customer assets in no-load, no fee mutual funds sponsored by third parties, up 13 percent from the fiscal year 2002 average balance of \$5.2 billion. In Canada, mutual fund and related revenue increased 74 percent from \$35.4 million in fiscal year 2002 to \$61.7 million in fiscal year 2003 primarily due to the purchase of TD Bank's full service brokerage and advisory businesses by TD Waterhouse Canada in July 2002. Assets under administration for mutual funds in Canada increased 8 percent from \$7.5 billion in fiscal year 2002 to \$8.1 billion in fiscal year 2003.

Gain on principal transactions was \$21.1 million in fiscal year 2003. There was no gain on principal transactions in fiscal year 2002 because the program to internalize order flow began in fiscal year 2003.

Total other revenues decreased 47 percent from \$169.8 million in fiscal year 2002 to \$90.2 million in fiscal year 2003. Fees from affiliates increased 56 percent from \$19.2 million in fiscal year 2002 to \$30.0 million in fiscal year 2003 due to a 14 percent increase in the assets under administration for TD Asset Management from \$6.1 billion in fiscal year 2002 to \$7.0 billion in fiscal year 2003. Loss on available for sale securities decreased 41 percent from \$1.4 million in fiscal year 2002 to \$0.8 million in fiscal year 2003. Other revenues decreased 60 percent from \$152.0 million in fiscal year 2002 to \$61.0 million in fiscal year 2003 largely due to the recording of \$96.6 million of other revenues in fiscal year 2002 regarding the acquisition of businesses by TD Waterhouse Canada for the eight months

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preceding the merger of entities under common control. Such amount principally includes commissions and fee income. This decrease was partially offset by gains on foreign exchange spread in Canada.

Interest revenue increased 3 percent from \$372.6 million in fiscal year 2002 to \$384.8 million in fiscal year 2003 primarily due to a 3 percent increase in average customer margin balances from \$3.5 billion to \$3.6 billion and a 19 percent increase in average investment securities balances from \$7.5 billion to \$8.9 billion. Average yield on customer margin balances decreased 2 percent from 4.33 percent to 4.24 percent, while the average interest rate earned on investment securities decreased 20 percent from 2.11 percent to 1.68 percent. In the US, average customer margin balances decreased 4 percent from \$2.6 billion in fiscal year 2002 to \$2.5 billion in fiscal year 2003, with the average margin yield decreasing 6 percent from 4.06 percent to 3.83 percent. Average investment securities balances in US increased 8 percent from \$5.9 billion in fiscal year 2002 to \$6.4 billion in fiscal year 2003, while the average interest rate earned on investment securities decreased 33 percent from 2.05 percent to 1.38 percent. In Canada, average customer margin balances increased 19 percent from \$926.0 million in fiscal year 2002 to \$1.1 billion in fiscal year 2003, with the average margin yield increasing 2 percent from 5.07 percent to 5.18 percent. Average investment securities balances in Canada increased 56 percent from \$1.6 billion in fiscal 2002 to \$2.5 billion in fiscal 2003, while the average interest rate earned on investment securities increased 6 percent from 2.32 percent to 2.45 percent. Also, fiscal year 2002 included a \$12.6 million adjustment to interest income regarding the acquisition of businesses by TD Waterhouse Canada.

Interest expense increased 7 percent from \$96.4 million in fiscal year 2002 to \$103.5 million in fiscal year 2003 primarily due to an 11 percent increase in interest-bearing customer deposit balances from \$8.9 billion to \$9.9 billion, offset by a 20 percent decrease in the average interest rate paid on deposits from 0.85 percent to 0.68 percent. In the US, average interest-bearing customer deposits increased 3 percent from \$6.7 billion in fiscal year 2002 to \$6.9 billion in fiscal year 2003, while the average rate paid decreased 70 percent from 0.70 percent to 0.21 percent. In Canada, average interest-bearing customer deposits increased 36 percent from \$2.2 billion in fiscal year 2002 to \$3.0 billion in fiscal year 2003, and the average rate paid increased 34 percent from 1.32 percent to 1.77 percent.

*Operating Expenses*

Employee compensation and benefits expense increased 23 percent from \$372.6 million in fiscal year 2002 to \$456.6 million in fiscal year 2003 primarily due to the integration of TD Bank's full service brokerage and advisory businesses by TD Waterhouse Canada as of July 1, 2002 (see other expenses below), and partly due to the expansion of our financial planning services where we added staff to accommodate increased trading activities. Also, fiscal year 2002 included \$20.5 million of employee compensation and benefits expense for the UK operations that were discontinued in June 2002.

Floor brokerage, exchange and clearing fees expense increased 63 percent from \$53.1 million in fiscal year 2002 to \$86.5 million in fiscal year 2003 primarily due to additional trading volumes from a full twelve months of costs from the TD Waterhouse Canada full service brokerage and advisory businesses in fiscal year 2003 versus four months in fiscal year 2002, as all operating expenses associated with the merger of entities under common control by TD Waterhouse Canada for the eight months preceding the acquisition date were recorded in other expenses. This increase was partially offset by the sale of \$3.7 million in unsecured receivables in 2003, which were previously fully reserved.

Occupancy expense increased 8 percent from \$66.7 million in fiscal year 2002 to \$71.8 million in fiscal year 2003 primarily due to write-downs in fiscal year 2003 for closing a call center and a sub-tenant default.

Advertising and marketing expense decreased 27 percent from \$91.1 million in fiscal year 2002 to \$66.8 million in fiscal year 2003 due to management's determination to decrease discretionary advertising spending.

Depreciation and amortization expense increased 3 percent from \$57.4 million in fiscal year 2002 to \$55.7 million in fiscal year 2003 primarily due to higher intangible asset write-offs in fiscal year 2003.

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Equipment expense decreased 20 percent from \$47.0 million in fiscal year 2002 to \$37.8 million in fiscal year 2003 due to lower equipment rental costs.

Communications and data processing expense decreased 6 percent from \$82.5 million in fiscal year 2002 to \$77.4 million in fiscal year 2003 largely due to decreased news and quotes costs.

Professional fees expense increased 3 percent from \$41.9 million in fiscal year 2002 to \$43.0 million in fiscal year 2003 largely due to higher legal and audit fees of TD Waterhouse Canada associated with the acquisition of the full service brokerage business from TD Bank Financial Group.

Stationery and postage expense decreased 10 percent from \$37.7 million in fiscal year 2002 to \$33.8 million in fiscal year 2003 primarily due to fewer customer mailings in conjunction with lower marketing spending.

Other expenses decreased 46 percent from \$190.2 million in fiscal year 2002 to \$101.8 million in fiscal year 2003 primarily due to the recording of \$109.2 million of other expenses in fiscal year 2002 regarding the merger of entities under common control by TD Waterhouse Canada for the eight months preceding the merger date. In 2003 such expenses are primarily reflected in employee compensation and floor brokerage, exchange and clearing fees. Also, fiscal year 2003 included a \$4.8 million provision of legal fees for the class action foreign exchange issue in Canada, as well as the addition of the full service brokerage and advisory business from TD Bank Financial Group to TD Waterhouse Canada.

**Liquidity and Capital Resources**

Historically, we have financed our customer securities operations primarily through customer credit balances, deposits received for securities loaned, and other short-term borrowings. As of October 31, 2004, 93 percent of our assets consisted of cash and cash equivalents or assets readily convertible into cash (principally receivables from customers, receivables from brokers and dealers, deposits paid for securities borrowed, and securities owned). Receivables from customers consist primarily of margin loans to customers, which are secured by customers' readily marketable securities. Receivables from brokers and dealers consist of amounts receivable from pending securities transactions. Deposits paid for securities borrowed represent cash deposits placed with brokers securing marketable securities borrowed by us. Securities owned consist primarily of US and Canadian government securities and other securities that trade in highly liquid markets.

Capital expenditures and investments in new technology, services and advertising have been primarily financed to date through earnings from operations.

Our broker-dealer subsidiaries are subject to regulatory requirements intended to ensure their general soundness and liquidity, which require that broker-dealers comply with certain minimum capital requirements. These regulations, which differ in each country, generally prohibit our broker-dealer subsidiaries from repaying borrowings from TD, paying cash dividends, making loans to us or to affiliates, or otherwise entering into transactions which would result in significant reductions in their regulatory capital positions without prior notification and/or the approval of the broker-dealers' principal regulator. Our capital structure is designed to provide each entity and business with capital liquidity consistent with its business and regulatory requirements.

**Cash Flow**

Net income plus depreciation and amortization was \$94.6 million, \$100.5 million and \$214.3 million for the fiscal years ended October 31, 2002, 2003 and 2004, respectively. Depreciation and amortization expense, which relates to fixed assets, leasehold improvements and goodwill, was \$59.2 million, \$55.7 million and \$56.2 million for the fiscal years ended October 31, 2002, 2003 and 2004, respectively. Capital expenditures were \$47.9 million, \$31.2 million and \$38.1 million for the fiscal years ended October 31, 2002, 2003 and 2004, respectively, and represented 4 percent, 3 percent and 3 percent, respectively, of net revenues for each period.

**Table of Contents****Contractual Obligations**

The following summarizes our contractual obligations as of October 31, 2004. Amounts are in thousands.

		<b>Less than</b>			<b>More than</b>
		<b>1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>5 Years</b>
	<b>Total</b>	<b>2005</b>	<b>2006-07</b>	<b>2008-09</b>	<b>After 2009</b>
Operating leases	\$ 190,593	36,737	60,110	40,066	53,680

**Off-Balance Sheet Arrangements**

TD Waterhouse, through TD Waterhouse Bank, is a party to financial instruments with off-balance sheet risk to reduce its own exposure to fluctuations in foreign currency rates, interest rates and equity indices. TD Waterhouse itself is a party to financial instruments with off-balance sheet risk to reduce its own exposure to fluctuations in the stock price of TD.

These financial instruments include forward foreign exchange contracts, cross currency interest rate swaps and equity derivative contracts. These instruments involve elements of credit risk, counter party risk and market risk in excess of the amounts recognized on the consolidated balance sheet. The contract or notional amounts of these instruments reflect the extent of involvement TD Waterhouse has in those classes of financial instruments.

**Canadian Dollar Forward Foreign Exchange Contracts*****Cross Currency Interest Rate Swaps***

TD Waterhouse, through TD invests a substantial portion of its money market sweep deposit balance in fixed rate Canadian Dollar denominated Canadian mortgage backed securities. The fixed coupon interest rates and currency risks inherent in the mortgage-backed securities have been hedged by forward foreign exchange contracts and cross currency interest rate swap contracts entered into with TD. These forward foreign exchange and cross currency interest rate swap contracts are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ), which establishes accounting and reporting standards for all derivative instruments and hedging activities, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value, as either assets or liabilities. The Forward Foreign Currency Contracts are only used in months in which there is a purchase of Canadian mortgage backed securities. They are designed to mitigate the currency exposure on the coupon interest purchased and accrued until the end of the month in which Canadian mortgage backed securities are purchased, when the cross currency interest rate swaps become effective. TD Waterhouse, through TD, has designated the cross currency interest rate swap contracts as hedges of the fair value of the underlying Canadian Dollar mortgage-backed securities. Changes in fair value of a derivative that is highly effective, and that is designated and qualifies as a fair value hedge, along with changes in fair value of the hedged asset and liability that are attributable to the hedged risk, are recorded in current period earnings.

The cross currency interest rate swap contracts are structured such that the terms of the contracts mirror those of the underlying mortgage-backed securities. Market value gains and losses on the swap contracts are expected to offset market value gains and losses on those securities with no net impact on earnings. Market value gains and losses on these contracts and agreements are currently recognized in other revenue. The portion of the change in the hedged securities fair value attributable to changes in interest rate and foreign exchange risk are reflected as a basis adjustment of the amortized cost of the securities and also are reported in current earnings, effectively offsetting gains and losses on the contracts and agreements. Other changes in the fair value of the hedged securities are reported through other comprehensive income net of the related tax effects. These agreements and contracts effectively convert the returns on the fixed rate Canadian dollar mortgage-backed securities to U.S. dollar floating rates of return. No

forward foreign exchange contracts were due as of October 31, 2004.

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At October 31, 2004, TD Waterhouse, through TD Waterhouse Bank, had 104 cross currency interest rate swap agreements outstanding, having a total notional principal amount of \$5.7 million. In addition to hedging foreign currency risk exposure, the swaps provide floating rates of return on its Canadian dollar mortgage-backed securities.

**Equity derivative contracts**

TD Waterhouse, through TD Waterhouse Bank, has entered into equity derivative agreements that are designed to provide equity returns on its equity-linked certificates of deposit. Market value gains and losses are recognized currently and the resulting credits and debits offset market value gains and losses on the embedded derivatives in those certificates of deposit. As of October 31, 2004, four equity derivative agreements were outstanding, having total notional principal amounts of \$1.1 million. The equity derivative agreements mirror the lives of the underlying equity-linked certificates of deposit.

TD Waterhouse has restricted share unit plans offered to certain employees. Restricted share units are phantom units of TD stock traded on the Toronto or New York Stock Exchanges, whose value is the average of the high and low prices for the 20 trading days preceding the redemption date. These awards vest and mature on the third anniversary of the award date. The redemption value, after withholdings, is paid in cash. TD Waterhouse has entered into swap contracts with TD Bank to mitigate the impact of changes in TD's share price on the cost to TD Waterhouse of the restricted share unit plans. The swaps are designated as cash flow hedges and have been determined to be highly effective. Market fluctuations in the price of TD common shares are reflected in compensation expense with the offsetting gain or loss on the swap reported in other revenue, for the pro-rata portion of the awards that has vested. Gain or loss on unvested units is recorded in other comprehensive income. At October 31, 2004, the notional amount of all equity compensation swaps was \$11.3 million.

**Quantitative And Qualitative Disclosures About Market Risk**

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and market prices. We have established policies, procedures and internal processes governing our management of market risks in the normal course of our business operations.

As a part of our brokerage business, we hold short-term interest-earning assets (mainly margin loans to customers). These assets totaled \$5.1 billion and \$4.5 billion at October 31, 2004 and October 31, 2003, respectively, of which \$1.6 billion and \$1.3 billion, respectively, were denominated in Canadian dollars. These interest earning assets are financed by short-term interest-bearing liabilities in the form of customer balances and deposits received for stock loaned. We earn a net interest spread on the difference between amounts earned on customer margin loans and amounts paid on stock loan and customer credit balances. Since we establish the rate paid on customer cash balances, a substantial portion of our interest rate risk is under our direct management. We generally move rates earned on customer margin loans in lockstep with rates paid on stock loans and customer balances to maintain a consistent net interest spread, and, therefore, do not anticipate that changes in interest rates will have a material adverse effect on our earnings.

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

We are also exposed to market risk in our trading portfolio where we are active participants as market makers, seeking to realize returns through careful management of our positions and daily inventories. We held short-term securities totaling \$1.8 million and \$1.3 million at October 31, 2004 and October 31, 2003, respectively. We seek to manage trading risk by enforcing trading limits where our primary measure for

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setting trading limits is Value at Risk. Value at Risk measures the adverse impact the potential changes in market rates and prices could have on the value of the portfolio in addition to notional limits based on business need. Risk positions and limits are strictly enforced and monitored daily. Trading limits that have been exceeded are reported, escalated, and approved as appropriate.

Further, in brokerage, we also have market risk exposure due to retention of fixed income securities for the purpose of retail distribution. We held investment grade short-term fixed income securities totaling \$2.8 million and \$1.8 million at October 31, 2004 and October 31, 2003, respectively. Our primary measure for setting fixed-income trading limits is Value at Risk, which measures the adverse impact the potential changes in market rates and prices could have on the value of the portfolio, in addition to notional limits based on business need. Risk metrics are also employed through the monitoring of interest rate delta limits and notional limits by product categories. Risk positions and limits are strictly enforced and monitored daily.

As a fundamental part of TD Waterhouse Bank we hold short-term interest earning assets; mainly Canadian Mortgage Backed Securities (MBS) and U.S. Government Sponsored Agency Securities. These assets totaled \$11.9 billion and \$8.2 billion at October 31, 2004 and October 31, 2003, respectively. This increase relates primarily to the increase in customer balances on deposit. Derivative financial instruments are used to fully mitigate currency (Canadian) and interest rate risk associated with the MBS. In no instance does TD Waterhouse Bank trade derivatives for its own account.

For TD Waterhouse Bank we regularly perform sensitivity analyses to estimate the impact of changes in interest rates on earnings (Earnings at Risk) and the market value of interest sensitive assets and liabilities (Market Value at Risk). The sensitivity of these results is determined by calculating the impact of alternative interest rate scenarios based on an immediate and sustained increase and decrease in rates in 100 basis-point increments.

The sensitivity of net interest income and economic value of equity to TD Waterhouse Bank as of October 31, 2004 and October 31, 2003 are listed below:

**Change in Earnings at Risk (EAR) and  
Market Value at Risk (MVR) at  
October 31,**

Change in Interest Rates (bps)	2004		2003	
	EAR(1)	MVR(2)	EAR(1)	MVR(2)
+300	\$ 11,700	\$ 15,000	\$ 7,000	\$ 14,175
+200	\$ 7,800	\$ 10,000	\$ 4,500	\$ 9,450
+100	\$ 3,900	\$ 5,000	\$ 2,250	\$ 4,725
-100	N/A	\$ (5,000)	N/A	\$ (4,725)

(1) pre-tax

(2) after-tax

A portion of our brokerage operations consists of brokerage services in Canada. As a result, our results of operations could be adversely affected by factors, such as changes in foreign currency exchange rates or economic conditions in the Canadian market in which we provide our services. When the US dollar strengthens against these currencies, the US dollar value of non-US dollar based revenues decreases. Accordingly, changes in exchange rates may adversely affect our consolidated operating margins as expressed in US dollars. For the years ended October 31, 2003 and 2004, 43 percent and 45 percent, respectively, of our consolidated revenue and 57 percent and 58 percent, respectively, of our consolidated pre-tax income was derived from our Canadian brokerage operations. We do not hedge our risk to Canadian dollar fluctuations. For the year ended October 31, 2004, a 10 percent strengthening and

weakening of the US Dollar against the Canadian dollar would have impacted consolidated revenues and consolidated pre-tax income as follows:

	<b>Revenue</b>	<b>Pre-Tax Income</b>
10% Strengthening of the US Dollar	\$ (57.4) million	\$ (13.4) million
10% Weakening of the US Dollar	\$ 63.2 million	\$ 14.7 million

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**UNAUDITED PRO FORMA COMBINED CONDENSED  
FINANCIAL STATEMENTS OF TD AMERITRADE**

The following unaudited pro forma combined condensed financial statements have been prepared to assist you in your analysis of the financial effects of the acquisition of TD Waterhouse by Ameritrade. This information should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and accompanying notes of Ameritrade and TD Waterhouse included in or incorporated into this proxy statement by reference.

The pro forma financial information is based on the estimates and assumptions set forth in the notes to such information. The pro forma financial information is preliminary and is being furnished solely for information purposes and, therefore, is not necessarily indicative of the combined results of operations or financial position that might have been achieved for the dates or periods indicated, nor is it necessarily indicative of the results of operations or financial position that may occur in the future.

The accompanying unaudited pro forma combined condensed financial statements give effect to the acquisition of TD Waterhouse using the purchase method of accounting. The pro forma adjustments related to the acquisition of TD Waterhouse are preliminary and are based on management's estimates of the value of the tangible and intangible assets acquired. The actual adjustments may differ materially from those presented in these pro forma financial statements. The final purchase price allocation will be completed after asset and liability valuations are final. The preliminary allocations are based on assumptions that Ameritrade's management believes are reasonable. Final adjustments may result in a materially different allocation of the purchase price, which would affect the value assigned to the tangible and intangible assets or could result in a change to the statement of operations. The effect of these changes on the statement of operations will depend on the nature and amount of adjustments to the assets and liabilities.

The unaudited pro forma combined condensed balance sheet assumes that the acquisition of TD Waterhouse took place on June 24, 2005, and combines Ameritrade's unaudited June 24, 2005 condensed consolidated balance sheet with TD Waterhouse's unaudited April 30, 2005 condensed consolidated statement of financial condition.

The unaudited pro forma combined condensed statements of operations for the year ended September 24, 2004 and the nine months ended June 24, 2005 assume the acquisition of TD Waterhouse took place as of September 26, 2003. The unaudited pro forma combined condensed statement of operations for the year ended September 24, 2004 combines Ameritrade's audited consolidated statement of operations for the year ended September 24, 2004 with TD Waterhouse's audited consolidated statement of income for the year ended October 31, 2004. The unaudited pro forma combined condensed statement of operations for the nine months ended June 24, 2005 combines Ameritrade's unaudited condensed consolidated statement of operations for the nine months ended June 24, 2005 with TD Waterhouse's consolidated results of operations for the nine months ended April 30, 2005, comprising TD Waterhouse's last three months of operations for the year ended October 31, 2004 and first six months of operations for the year ending October 31, 2005.

The unaudited pro forma combined condensed financial statements assume the Reorganization and the sale of Ameritrade Canada occur concurrently with the acquisition of TD Waterhouse. The actual timing of the completion of the Reorganization and the sale of Ameritrade Canada may differ.

Reclassifications have been made to TD Waterhouse's historical financial information to conform it to Ameritrade's financial statement classifications.

The pro forma results of operations do not reflect revenue opportunities and cost savings that we expect to realize after the acquisition of TD Waterhouse. No assurance can be given with respect to the estimated revenue opportunities and operating cost savings that are expected to be realized as a result of the acquisition of TD Waterhouse. The pro forma financial information does not reflect restructuring or exit costs that may be incurred by Ameritrade or TD Waterhouse in connection with the acquisition of TD Waterhouse.

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**TD AMERITRADE**  
**UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET**  
**June 24, 2005**  
(In thousands)

	Ameritrade Historical	Sale of Ameritrade Canada Note 2(a)	Ameritrade Adjusted
<b>ASSETS</b>			
Cash and cash equivalents	\$ 267,316	\$ 61,793	\$ 329,109
Short-term investments	20,000		20,000
Cash and investments segregated in compliance with federal regulations	7,757,897		7,757,897
Receivable from brokers, dealers and clearing organizations	3,837,529		3,837,529
Receivable from clients and correspondents net	3,440,170	(639)	3,439,531
Property and equipment net	28,292	(119)	28,173
Goodwill	769,347		769,347
Acquired intangible assets net	263,426		263,426
Other investments	64,583		64,583
Other assets	57,311	184	57,495
 Total assets	 \$ 16,505,871	 \$ 61,219	 \$ 16,567,090
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Liabilities:			
Payable to brokers, dealers and clearing organizations	\$ 4,563,519	\$	\$ 4,563,519
Payable to clients and correspondents	10,251,193		10,251,193
Accounts payable and accrued liabilities	143,581	23,606	167,187
Prepaid variable forward derivative instrument	16,912		16,912
Prepaid variable forward contract obligation	39,058		39,058
Deferred income taxes	89,485	1,597	91,082
 Total liabilities	 15,103,748	 25,203	 15,128,951
Stockholders equity:			
Common Stock	4,351		4,351
Additional paid-in capital	1,182,943		1,182,943
Retained earnings	568,756	36,116	604,872
Treasury stock, Common, at cost	(383,423)		(383,423)
Deferred compensation	941		941
Accumulated other comprehensive income	28,555	(100)	28,455
 Total stockholders equity	 1,402,123	 36,016	 1,438,139

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Total liabilities and stockholders equity	\$ 16,505,871	\$ 61,219	\$ 16,567,090
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See notes to unaudited pro forma financial statements.

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**TD AMERITRADE**  
**UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET (Continued)**  
**June 24, 2005**  
**(In thousands)**

	<b>TD Waterhouse Historical</b>	<b>TD Waterhouse Reorganization Note 2(b)</b>	<b>TD Waterhouse Adjusted</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 248,362	\$ 156,165	\$ 404,527
Short-term investments	837,039	(837,039)	
Receivable from brokers, dealers and clearing organizations	127,068	(31,075)	95,993
Receivable from clients and correspondents net	5,305,206	(1,846,772)	3,458,434
Property and equipment net	161,017	(73,295)	87,722
Loans, net	26,322	(26,322)	
Goodwill	856,206	(92,752)	763,454
Acquired intangible assets net	9,703	(1,043)	8,660
Investments in debt and equity securities	12,454,897	(12,301,815)	153,082
Deferred tax assets	34,044	(7,257)	26,787
Other assets	167,291	(1,621)	165,670
<b>Total assets</b>	<b>\$ 20,227,155</b>	<b>\$ (15,062,826)</b>	<b>\$ 5,164,329</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>Liabilities:</b>			
Payable to brokers, dealers and clearing organizations	\$ 1,540,428	\$ 200,998	\$ 1,741,426
Payable to clients and correspondents	5,569,570	(3,821,252)	1,748,318
Client deposits	9,398,653	(9,398,653)	
Accounts payable and accrued liabilities	735,826	(554,304)	181,522
Subordinated debt with affiliate	30,000		30,000
Deferred income taxes	62,912		62,912
<b>Total liabilities</b>	<b>17,337,389</b>	<b>(13,573,211)</b>	<b>3,764,178</b>
Minority interest	66,177	(66,177)	
<b>Stockholders equity:</b>			
Preferred Stock	11,829	(11,829)	
Common Stock	3,530		3,530
Additional paid-in capital	1,766,884	(345,838)	1,421,046
Retained earnings	984,760	(984,760)	
Accumulated other comprehensive income/(loss)	56,586	(81,011)	(24,425)

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Total stockholders equity	2,823,589	(1,423,438)	1,400,151
Total liabilities and stockholders equity	\$ 20,227,155	\$ (15,062,826)	\$ 5,164,329

See notes to unaudited pro forma financial statements.

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**TD AMERITRADE**  
**UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET (Continued)**  
**June 24, 2005**  
**(In thousands)**

	Ameritrade Adjusted	TD Waterhouse Adjusted	Pro Forma Adjustments	Reference	Ameritrade and TD Waterhouse Combined
<b>ASSETS</b>					
Cash and cash equivalents	\$ 329,109	\$ 404,527	\$ (72,628)	2(c)	\$ 130,095
			1,876,250	2(e)	
			(2,407,163)	2(f)	
Short-term investments	20,000		(20,000)	2(f)	
Cash and investments segregated in compliance with federal regulations	7,757,897				7,757,897
Receivable from brokers, dealers and clearing organizations	3,837,529	95,993			3,933,522
Receivable from clients and correspondents net	3,439,531	3,458,434			6,897,965
Property and equipment net	28,173	87,722			115,895
Goodwill	769,347	763,454	344,588	2(c)	1,877,389
Acquired intangible assets net	263,426	8,660	675,040	2(c)	947,126
Investments in debt and equity securities	64,583	153,082			217,665
Deferred tax assets		26,787	(26,787)	2(c)	
Other assets	57,495	165,670	23,750	2(e)	246,915
<b>Total assets</b>	<b>\$ 16,567,090</b>	<b>\$ 5,164,329</b>	<b>\$ 393,050</b>		<b>\$ 22,124,469</b>

**LIABILITIES AND  
STOCKHOLDERS  
EQUITY**

**Liabilities:**

Payable to brokers, dealers and clearing organizations	\$ 4,563,519	\$ 1,741,426	\$		\$ 6,304,945
Payable to clients and correspondents	10,251,193	1,748,318			11,999,511
Accounts payable and accrued liabilities	167,187	181,522	15,817	2(c), (d)	364,526
Prepaid variable forward derivative instrument	16,912				16,912
	39,058				39,058

Prepaid variable forward contract obligation					
Long-term debt			1,900,000	2(e)	1,900,000
Subordinated debt with affiliate		30,000			30,000
Deferred income taxes	91,082	62,912	234,994	2(c)	388,988
<b>Total liabilities</b>	<b>15,128,951</b>	<b>3,764,178</b>	<b>2,150,811</b>		<b>21,043,940</b>
Stockholders' equity:					
Common Stock	4,351	3,530	(1,594)	2(c)	6,287
Additional paid-in capital	1,182,943	1,421,046	670,996	2(c)	1,452,694
			(1,822,291)	2(f)	
Retained earnings	604,872		(604,872)	2(f)	
Treasury stock, Common, at cost	(383,423)				(383,423)
Deferred compensation	941				941
Accumulated other comprehensive income/(loss)	28,455	(24,425)			4,030
<b>Total stockholders' equity</b>	<b>1,438,139</b>	<b>1,400,151</b>	<b>(1,757,761)</b>		<b>1,080,529</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 16,567,090</b>	<b>\$ 5,164,329</b>	<b>\$ 393,050</b>		<b>\$ 22,124,469</b>

See notes to unaudited pro forma financial statements.

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**TD AMERITRADE**  
**UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS**  
**For the Year Ended September 24, 2004**  
**(In thousands, except per share amounts)**

	Ameritrade		TD		TD		TD		Ameritrade and	
	Ameritrade Canada	Ameritrade	Waterhouse	Reorganization	Waterhouse	Pro	Forma	Reference	TD Waterhouse	Combined
	Historical Note 2(g)	Adjusted	Historical	Note 2(h)	Adjusted	Adjustments				
<b>Revenues:</b>										
Commissions and clearing fees	\$ 560,052	\$ (9,553)	\$ 550,499	\$ 681,944	\$ (351,424)	\$ 330,520	\$		\$	881,019
Interest revenue	278,550	(905)	277,645	478,122	(334,741)	143,381				421,026
Brokerage interest expense	41,861		41,861	123,271	(111,053)	12,218				54,079
Net interest revenue	236,689	(905)	235,784	354,851	(223,688)	131,163				366,947
Other	83,372	(63)	83,309	362,027	(87,804)	274,223				357,532
Net revenues	880,113	(10,521)	869,592	1,398,822	(662,916)	735,906				1,605,498
<b>Expenses:</b>										
Employee compensation and benefits	154,792	(1,472)	153,320	527,229	(261,802)	265,427				418,747
Clearing and execution costs	30,610	(2,073)	28,537	104,596	(62,546)	42,050				70,587
Communications	39,853	(155)	39,698	57,543	(8,053)	49,490				89,188
Occupancy and equipment costs	42,353	(246)	42,107	107,460	(35,697)	71,763				113,870
Depreciation and amortization	23,224	(9)	23,215	56,231	(15,369)	40,862	34,185	2(i)		98,262
Professional services	27,381	(114)	27,267	58,294	(29,289)	29,005				56,272

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Interest on borrowings	2,581	(1)	2,580	1,992		1,992	136,393	2(j)	140,965
Loss on disposal of property	1,166		1,166						1,166
Other	16,632	(113)	16,519	141,169	(66,960)	74,209			90,728
Advertising	100,364	(1,483)	98,881	91,293	(15,516)	75,777			174,658
<b>Total expenses</b>	<b>438,956</b>	<b>(5,666)</b>	<b>433,290</b>	<b>1,145,807</b>	<b>(495,232)</b>	<b>650,575</b>	<b>170,578</b>		<b>1,254,443</b>
Income before income taxes and minority interest	441,157	(4,855)	436,302	253,015	(167,684)	85,331	(170,578)		351,055
Provision for income taxes	168,810	(1,667)	167,143	85,793	(61,534)	24,259	(66,525)	2(k)	124,877
Income before minority interest	272,347	(3,188)	269,159	167,222	(106,150)	61,072	(104,053)		226,178
Minority interest				9,150	(9,150)				
Net income	\$ 272,347	\$ (3,188)	\$ 269,159	\$ 158,072	\$ (97,000)	\$ 61,072	\$ (104,053)		\$ 226,178
Earnings per share basic	\$ 0.65		\$ 0.64						\$ 0.37
Earnings per share diluted	\$ 0.64		\$ 0.63						\$ 0.36
Weighted average shares outstanding basic	417,629		417,629				193,600	2(l)	611,229
Weighted average shares outstanding diluted	426,972		426,972				193,600	2(l)	620,572

See notes to unaudited pro forma financial statements.



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**TD AMERITRADE**  
**UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS**  
**For the Nine Months Ended June 24, 2005**  
**(In thousands, except per share amounts)**

	Ameritrade		TD		TD		Pro		Ameritrade	
	Ameritrade Canada	Ameritrade	Waterhouse	Reorganization	Waterhouse	Waterhouse	Forma	Reference	TD Waterhouse	Combined
	Historical Note 2(g)	Adjusted	Historical	Note 2(h)	Adjusted	Adjusted	Adjustments			
<b>Revenues:</b>										
Commissions and clearing fees	\$ 394,596	\$(7,432)	\$ 387,164	\$ 493,964	\$(280,246)	\$ 213,718	\$		\$	600,882
Interest revenue	366,797	(1,042)	365,755	503,044	(363,709)	139,335				505,090
Brokerage interest expense	93,526		93,526	162,091	(142,087)	20,004				113,530
Net interest revenue	273,271	(1,042)	272,229	340,953	(221,622)	119,331				391,560
Other	60,973	(214)	60,759	284,641	(74,962)	209,679				270,438
Net revenues	728,840	(8,688)	720,152	1,119,558	(576,830)	542,728				1,262,880
<b>Expenses:</b>										
Employee compensation and benefits	130,811	(1,503)	129,308	444,310	(230,947)	213,363				342,671
Clearing and execution costs	20,081	(1,700)	18,381	93,101	(63,502)	29,599				47,980
Communications	27,203	(138)	27,065	38,791	(6,453)	32,338				59,403
Occupancy and equipment costs	33,018	(319)	32,699	87,084	(30,602)	56,482				89,181
Depreciation and amortization	17,543	(44)	17,499	41,262	(11,882)	29,380	25,639	2(i)		72,518
Professional services	26,722	(139)	26,583	46,932	(26,550)	20,382				46,965

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Interest on borrowings	1,503	(2)	1,501	1,494		1,494	96,357	2(j)	99,352
Gain on disposal of property	(220)		(220)						(220)
Other	13,146	(1,901)	11,245	88,207	(30,857)	57,350			68,595
Advertising	72,307	(1,143)	71,164	79,001	(11,975)	67,026			138,190
<b>Total expenses</b>	<b>342,114</b>	<b>(6,889)</b>	<b>335,225</b>	<b>920,182</b>	<b>(412,768)</b>	<b>507,414</b>	<b>121,996</b>		<b>964,635</b>
Income before income taxes and minority interest	386,726	(1,799)	384,927	199,376	(164,062)	35,314	(121,996)		298,245
Provision for income taxes	148,489	406	148,895	69,240	(60,643)	8,597	(46,968)	2(m)	110,524
Income before minority interest	238,237	(2,205)	236,032	130,136	(103,419)	26,717	(75,028)		187,721
Minority interest				6,847	(6,847)				
Net income	\$ 238,237	\$ (2,205)	\$ 236,032	\$ 123,289	\$ (96,572)	\$ 26,717	\$ (75,028)		\$ 187,721
Earnings per share basic	\$ 0.59		\$ 0.58						\$ 0.31
Earnings per share diluted	\$ 0.58		\$ 0.57						\$ 0.31
Weighted average shares outstanding basic	403,911		403,911				193,600	2(l)	597,511
Weighted average shares outstanding diluted	412,250		412,250				193,600	2(l)	605,850

See notes to unaudited pro forma financial statements.



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**TD AMERITRADE**  
**NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The unaudited pro forma combined condensed financial statements reflect the recording of entries required under the purchase method of accounting. The total purchase price has been allocated to the tangible and intangible assets and liabilities of TD Waterhouse based on their estimated fair values. The amounts and components of the purchase price, along with the preliminary allocation of the purchase price, are presented below. Amounts are in thousands.

**Purchase Price**

TD Ameritrade common stock issued	\$	2,093,978
Cash acquired, net of cash paid		(331,899)
Acquisition costs		15,817
Total purchase price	\$	1,777,896

**Preliminary Purchase Price Allocation**

Receivable from brokers, dealers, and clearing organizations	\$	95,993
Receivable from clients and correspondents, net		3,458,434
Property and equipment, net		87,722
Goodwill		1,108,042
Acquired client relationship intangible asset		683,700
Investments in debt and equity securities		153,082
Other assets		165,670
Total assets acquired		5,752,643
Payable to brokers, dealers and clearing organizations		(1,741,426)
Payable to clients and correspondents		(1,748,318)
Accounts payable and accrued liabilities		(181,522)
Notes payable		(30,000)
Deferred income taxes		(297,906)
Total liabilities assumed		(3,999,172)
Other comprehensive loss		24,425
Total purchase price allocated	\$	1,777,896

The value of the TD Ameritrade common stock to be issued reflects the issuance of 193.6 million shares of common stock to TD, which will equal approximately 32 percent of the total shares of TD Ameritrade common stock upon completion of the acquisition of TD Waterhouse. The value of the shares is calculated using the \$16.816 average closing market price of Ameritrade common stock for a short period before and after June 22, 2005, the date the proposed acquisition of TD Waterhouse was agreed to and announced, less the proposed \$6.00 per share special cash

dividend. The special dividend is deducted from the average market price because the shares issued to TD will not include the right to receive the special dividend.

Cash acquired, net of cash paid consists of \$404.5 million of cash of TD Waterhouse at closing to fund \$1.00 per share of the special dividend, less \$20,000 in cash consideration paid to TD and approximately \$72.6 million of cash paid to TD based on a comparison of Ameritrade's net tangible book value to its minimum net tangible book value as specified in the share purchase agreement. The

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**TD AMERITRADE**  
**NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED**  
**FINANCIAL STATEMENTS (Continued)**

calculation of Ameritrade's net tangible book value deficit is based on the June 24, 2005 consolidated balance sheet. The actual net tangible book value deficit, if any, will be based on Ameritrade's consolidated balance sheet as of the closing date of the acquisition of TD Waterhouse.

**2. Pro Forma Adjustments**

The following adjustments have been reflected in the unaudited pro forma combined condensed financial statements:

(a) Reflects the sale of Ameritrade Canada to TD pursuant to the Canadian Purchase Agreement, net of income tax effects. Under the Canadian Purchase Agreement, the sale price consists of cash equal to the sum of \$60 million plus Ameritrade Canada's net tangible book value. The sale of Ameritrade Canada would result in a gain on the sale of approximately \$60.0 million and an estimated income tax liability of approximately \$24.0 million based the June 24, 2005 Ameritrade Canada balance sheet.

(b) Reflects, pursuant to the Reorganization, the sale of all TD Waterhouse non-U.S. and non-brokerage businesses to TD and the distribution to TD of excess capital of TD Waterhouse above the sum of 6 percent of aggregate debit items (calculated for each registered broker-dealer as of any given date on the same basis as the amount set forth in Box 4470 of the Form X-17A-5 that is completed by such entity) plus \$1.00 per share of Ameritrade common stock.

(c) Reflects the recording of the acquisition of TD Waterhouse under the purchase method of accounting. The total purchase price has been allocated to the tangible and intangible assets and liabilities of TD Waterhouse based on their estimated fair values. The amounts and components of the purchase price, along with the preliminary allocation of the purchase price, are presented in Note 1.

(d) Reflects liabilities recorded for Ameritrade's estimated acquisition costs of \$15.8 million.

(e) Reflects the issuance of \$1.9 billion of long-term debt and estimated debt issuance costs of approximately \$23.8 million or 1.25 percent of the principal. Ameritrade expects to fund the proposed \$6.00 per share special dividend with up to approximately \$0.4 billion from cash on hand and short-term investments, approximately \$0.4 billion from excess capital in TD Waterhouse at closing and the remaining \$1.6 billion to \$2.0 billion by issuing private or public long-term debt.

(f) Reflects the payment of the \$6.00 per share special dividend.

(g) Reflects the deletion of Ameritrade Canada's results of operations.

(h) Reflects the deletion of all TD Waterhouse non-U.S. and non-brokerage results of operations.

(i) Reflects amortization resulting from the portion of the TD Waterhouse purchase price allocated to the estimated fair value of the TD Waterhouse client base. The pro forma adjustment assumes the intangible asset is amortized on a straight-line basis over an estimated life of 20 years. The amount allocated to this intangible asset was based on Ameritrade management's preliminary estimate of the value of the TD Waterhouse client base. The actual amount to be allocated to the value of the TD Waterhouse client base will be based on an independent valuation. A hypothetical \$100 million change in the amount allocated to this intangible asset would result in a \$5.0 million and \$3.8 million pre-tax effect on amortization expense for the fiscal year and nine-month periods presented, respectively.

(j) Reflects estimated interest expense and amortization of debt issuance costs associated with the long-term debt to be incurred to fund the special dividend as discussed under pro forma adjustment (e). Pro forma interest expense is based on an estimated annual interest rate of 7.0 percent. Debt issuance costs are assumed to be amortized over an expected term of seven years. The assumed interest rate and term of the long-term debt are based on estimates provided by Ameritrade's lead debt underwriter and do

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**TD AMERITRADE  
NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED  
FINANCIAL STATEMENTS (Continued)**

not represent a firm commitment. Actual results may differ. A hypothetical  $\frac{1}{8}$  percent change in the annual interest rate would result in a \$2.4 million and \$1.7 million pre-tax effect on interest expense for the fiscal year and nine-month periods presented, respectively.

(k) Reflects the income tax effect of pro forma adjustments (i) and (j), computed at 39.0 percent for the year ended September 24, 2004, which was Ameritrade's marginal tax rate for the period.

(l) Reflects the impact of shares of TD Ameritrade common stock issued as consideration in the acquisition of TD Waterhouse as if outstanding from the beginning of the period.

(m) Reflects the income tax effect of pro forma adjustments (i) and (j), computed at 38.5 percent for the nine months ended June 24, 2005, which was Ameritrade's marginal tax rate for the period.

**Table of Contents****STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS  
AND MANAGEMENT OF AMERITRADE**

As of September 2, 2005, there were 405,121,706 shares of Ameritrade common stock outstanding. The following table sets forth, as of September 2, 2005, the beneficial ownership of the Ameritrade common stock by its named executive officers, directors, each person believed by Ameritrade to beneficially own more than 5% of Ameritrade common stock, by all current executive officers and directors of Ameritrade as a group, and certain other Ameritrade stockholders. Shares of common stock subject to options that are exercisable within 60 days of September 2, 2005 are deemed beneficially owned by the person holding such options and are treated as outstanding for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage of any other person.

Name	Number of Shares of Common Stock	Percent of Shares of Common Stock
<b>Directors and Executive Officers</b>		
J. Joe Ricketts(1) Chairman and Founder	89,318,300	21.9%
Joseph H. Moglia(2) Chief Executive Officer	10,811,702	2.6%
John R. MacDonald(3) Executive Vice President, Chief Financial Officer, Chief Administrative Officer and Treasurer	761,646	*
J. Peter Ricketts(4) Vice Chairman	10,152,967	2.5%
Asiff S. Hirji(5) Executive Vice President, Chief Operating Officer and Chief Information Officer	652,615	*
Michael J. Bingle(6) Director	11,466,209	2.8%
Dan W. Cook III(7) Director	2,485	*
Michael D. Fleisher(8) Director	46,191	*
Glenn H. Hutchins(9) Director	11,501,728	2.8%
Mark L. Mitchell(10) Director	217,354	*
Thomas S. Ricketts(11) Director	8,682,450	2.1%
All Directors and Executive Officers as a group (17 persons)	125,509,352	29.9%
<b>Other Stockholders</b>		
Entities affiliated with T. Rowe Price Associates, Inc.(12) 100 East Pratt Street Baltimore, MD 21202	23,299,155	5.8%
Entities affiliated with Alliance Capital Management L.P.(13) 1345 Avenue of the Americas, 38th Floor New York, NY 10105	22,711,454	5.6%

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Atticus Capital, L.L.C.(14) 152 West 57th Street, 45th Floor New York, NY 10019	20,481,700	5.1%
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Name	Number of Shares of Common Stock	Percent of Shares of Common Stock
Entities affiliated with TA Associates, Inc.(15) 125 High Street, Suite 2500 Boston, MA 02110	18,967,767	4.7%
Entities affiliated with Silver Lake Partners, L.P.(16) 2725 Sand Hill Road, Building C Suite 150 Menlo Park, CA 94025	11,466,209	2.8%
Ricketts Grandchildren Trust(17)	19,008,000	4.7%

\* Less than one percent of the issued and outstanding shares.

- (1) Shares of common stock beneficially owned by Mr. Ricketts consist of 67,609,988 shares held jointly with Marlene M. Ricketts, his spouse, in brokerage margin accounts; 8,186,112 shares held by the Marlene M. Ricketts 1994 Dynasty Trust, over which Mr. Ricketts has sole voting and dispositive power; 8,186,688 shares held by the J. Joe Ricketts 1996 Dynasty Trust, over which Mrs. Ricketts has sole voting and dispositive power; 2,475,000 shares owned by Mr. Ricketts individually but pledged as collateral; 332,352 shares held in the J. Ricketts IRA; 332,352 shares held in the M. Ricketts IRA; 5,153 shares held in Mr. Ricketts 401(k) account; and 2,190,655 shares issuable upon the exercise of options exercisable within 60 days.
- (2) Consists of 651,400 shares held by Mr. Moglia individually in a brokerage margin account; 140,000 shares held in trust for the benefit of Mr. Moglia's family; 4,357 shares held in Mr. Moglia's 401(k) account; and 10,015,945 shares issuable upon the exercise of options exercisable within 60 days.
- (3) Consists of 53,005 shares held by Mr. MacDonald individually in IRA accounts; 7,902 shares held jointly with Mr. MacDonald's spouse in a brokerage margin account; 3,638 shares held by Mr. MacDonald's spouse individually in an IRA account; 12,846 shares held in Mr. MacDonald's 401(k) account; 574,745 shares issuable upon the exercise of options exercisable within 60 days; and 109,510 shares held for the benefit of Mr. MacDonald in a deferred compensation account under Ameritrade's Executive Deferred Compensation Program.
- (4) Consists of 949,087 shares held by Mr. Ricketts individually in a brokerage margin account; 200,410 shares held jointly with Mr. Ricketts's spouse in a brokerage margin account; 19,950 shares held in trusts for the benefit of Mr. Ricketts's children; 15,650 shares in the Ricketts/ Shore 2003 Gift Trust; 70,066 shares in Mr. Ricketts's 401(k) account; 534,738 shares issuable upon the exercise of options exercisable within 60 days; 464,624 shares in the Marlene Ricketts Trust for the benefit of J. Peter Ricketts over which Mr. Ricketts has sole voting and dispositive power; and 7,898,442 shares in the Marlene Ricketts Annuity Trust 2002 #1, Marlene Ricketts Annuity Trust 2003 #1, Marlene Ricketts Annuity Trust 2004 #1 and Marlene Ricketts Annuity Trust 2004 #2 over which Mr. Ricketts has shared voting and dispositive power.
- (5) Consists of 26,212 shares held for the benefit of Mr. Hirji in a deferred compensation account under Ameritrade's Executive Deferred Compensation Program; 1,403 shares held in Mr. Hirji's 401(k) account; and 625,000 shares issuable upon the exercise of options exercisable within 60 days.

- (6) Consists of 11,466,209 shares owned by Silver Lake Partners, L.P. and its affiliated entities (see footnote 16 below). Mr. Bingle is a Managing Director of Silver Lake Technology Associates, L.L.C. and Silver Lake Technology Management, L.L.C. Mr. Bingle disclaims beneficial ownership of all shares owned by Silver Lake Partners, L.P. and its affiliated entities, except to the extent of his pecuniary interest therein.
- (7) Consists of 710 shares held by Mr. Cook individually and 1,775 shares of restricted stock.
- (8) Consists of 4,000 shares held by Mr. Fleisher individually; 2,000 shares of restricted stock; 20,000 shares issuable upon the exercise of options exercisable within 60 days; and 20,191 stock units held in a deferred compensation account for Mr. Fleisher.

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- (9) Consists of 13,519 shares held by Mr. Hutchins individually; 2,000 shares of restricted stock; 20,000 shares issuable upon the exercise of options exercisable within 60 days; and 11,466,209 shares owned by Silver Lake Partners, L.P. and its affiliated entities (see footnote 16 below). Mr. Hutchins is a Managing Member and officer of the General Partner of Silver Lake Partners, L.P. The shares held individually, restricted shares and shares issuable upon exercise of stock options were awarded to Mr. Hutchins in his capacity as a Director of Ameritrade. Under Silver Lake Partners' arrangements with respect to director compensation, any proceeds from these shares are to be assigned to Silver Lake Technology Management, L.L.C. As a result, Mr. Hutchins disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein. Mr. Hutchins disclaims beneficial ownership of all shares owned by Silver Lake Partners, L.P. and its affiliated entities, except to the extent of his pecuniary interest therein.
- (10) Includes 127,667 shares held by Mr. Mitchell individually in a brokerage margin account; 29,816 shares held by Mr. Mitchell in IRA accounts; 2,000 shares of restricted stock; 45,692 shares issuable upon the exercise of options exercisable within 60 days; and 12,179 shares in the Janet T. Mitchell IRA, over which Mr. Mitchell has shared voting and dispositive power.
- (11) Consists of 268,099 shares held by Mr. Ricketts jointly with his spouse in a brokerage margin account; 2,000 shares of restricted stock; 2,685 stock units held in a deferred compensation account for Mr. Ricketts; 20,000 shares issuable upon the exercise of options exercisable within 60 days; 26,600 shares held in trusts for the benefit of Mr. Ricketts' children; 464,624 shares held in the Marlene Ricketts Trust for the benefit of Thomas S. Ricketts over which Mr. Ricketts has sole voting and dispositive power; and 7,898,442 shares in the Marlene Ricketts Annuity Trust 2002 #1, Marlene Ricketts Annuity Trust 2003 #1, Marlene Ricketts Annuity Trust 2004 #1 and Marlene Ricketts Annuity Trust 2004 #2 over which Mr. Ricketts has shared voting and dispositive power.
- (12) Based on Form 13F filed on August 15, 2005 for the quarter ended June 30, 2005 by T. Rowe Price Associates, Inc. T. Rowe Price Associates, Inc. claimed sole voting authority with respect to 5,592,655 and no voting authority with respect to 17,706,500 shares.
- (13) Based on Form 13F filed on August 10, 2005 for the quarter ended June 30, 2005 by AXA on behalf of Alliance Capital Management L.P. and affiliated funds. Alliance Capital Management L.P. and affiliated funds claimed sole voting authority with respect to 19,545,041 shares, shared voting authority with respect to 156,960 shares and no voting authority with respect to 3,009,453 shares.
- (14) Based on Schedule 13G filed July 25, 2005 by Atticus Capital, L.L.C. and Timothy R. Barakett. Atticus Capital L.L.C. claimed sole voting authority and Timothy R. Barakett claimed shared voting authority with respect to these shares.
- (15) Represents shares owned by a group of investment funds affiliated with TA Associates, including (i) 12,019,137 shares owned by TA IX, L.P.; (ii) 4,408,658 shares owned by TA/Advent VIII, L.P.; (iii) 1,637,297 shares owned by TA Atlantic & Pacific IV, L.P.; (iv) 450,800 shares owned by Advent Atlantic & Pacific III, L.P.; (v) 360,354 shares owned by TA Investors, LLC; and (vi) 91,521 shares owned by TA Executives Fund, LLC.
- (16) Represents shares owned by Silver Lake Partners, L.P., Silver Lake Investors, L.P. and Silver Lake Technology Investors, L.L.C.
- (17) The trustee of the Ricketts Grandchildren Trust is First National Bank of Omaha, First National Center, 16th and Dodge Streets, Omaha, Nebraska, 68102.



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**FUTURE AMERITRADE STOCKHOLDER PROPOSALS**

Whether or not the acquisition of TD Waterhouse is completed, Ameritrade (or TD Ameritrade, in the event the acquisition of TD Waterhouse is completed) will hold its regular annual meeting of stockholders in 2006. Proposals of stockholders intended to be presented at this annual meeting of stockholders in 2006 and included in its proxy statement and proxy for that meeting are required to be received by the Secretary of Ameritrade by September 26, 2005. Pursuant to Ameritrade's bylaws, stockholders who intend to present an item for business at the next annual meeting (other than a proposal submitted for inclusion in Ameritrade's proxy materials) must provide notice to the Secretary of Ameritrade no earlier than October 19, 2005 and no later than November 18, 2005. Stockholder proposals must set forth (1) a brief description of the business desired to be brought before the annual meeting and the reason for conducting such business at the annual meeting, (2) the name and address of the stockholder proposing such business, (3) the number of shares of Ameritrade common stock beneficially owned by such stockholder and (4) any material interest of such stockholder in such business. The inclusion of any such proposal in such proxy material shall be subject to the requirements of the proxy rules adopted under the Exchange Act. Stockholder proposals should be sent to Ameritrade's principal executive offices at 4211 South 102nd Street, Omaha, Nebraska 68127. Ameritrade urges that any stockholder proposals be sent certified mail, return-receipt requested.

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**WHERE YOU CAN FIND MORE INFORMATION**

Ameritrade files reports, proxy statements and other information with the SEC as required under the Exchange Act. TD is a foreign private issuer and, under the rules adopted under the Exchange Act, is exempt from some of the requirements of that act, including the proxy and information provisions of Section 14 of the Exchange Act and the reporting and liability provisions applicable to officers, directors and significant stockholders under Section 16 of the Exchange Act. TD Waterhouse is a wholly owned subsidiary of TD and is exempt from the requirements of the Exchange Act.

You may read and copy any reports, statements or other information filed by Ameritrade at the public reference facilities maintained by the SEC in Room 1590, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for additional information on the operation of the SEC's public reference facilities. The SEC maintains a website that contains reports, proxy statements and other information, including those filed by Ameritrade, at <http://www.sec.gov>. You may also access the SEC filings and obtain other information about Ameritrade through the website maintained by Ameritrade, which is <http://www.amtd.com>. The information contained on the website is not incorporated by reference in, or in any way part of, this proxy statement.

TD files reports, statements and other information with the Canadian provincial securities administrators, which are available at the Canadian provincial securities administrators' public reference rooms. TD filings are also electronically available to the public from the Canadian System for Electronic Document Analysis and Retrieval, the Canadian equivalent of the SEC's EDGAR system, at <http://www.sedar.com>.

This proxy statement does not contain all the required information because the SEC allows us to incorporate by reference information into this proxy statement, which means that we can disclose important information to you by referring you to other documents filed separately with the SEC. The information incorporated by reference is deemed to be part of this proxy statement, except for any information superseded by information in this proxy statement. This proxy statement incorporates by reference the documents set forth below that Ameritrade has previously filed with the SEC. However, we are not incorporating any information furnished under Item 2.02 or 7.01 (formerly Item 12 or 9) of our Current Reports on Form 8-K filed with the SEC. These documents contain important information about Ameritrade and its financial condition.

**Table of Contents****Ameritrade Filings With the SEC  
(File No. 001-31251)**

	<b>Filing Date(s)</b>
Annual Report on Form 10-K	December 9, 2004
Quarterly Reports on Form 10-Q	February 8, 2005 May 2, 2005 July 22, 2005
Current Reports on Form 8-K	December 10, 2004 December 16, 2004 December 16, 2004 December 17, 2004 March 4, 2005 May 13, 2005 May 18, 2005 June 22, 2005 June 28, 2005 July 12, 2005 August 4, 2005 August 9, 2005 August 31, 2005 September 2, 2005 September 12, 2005

All documents filed by Ameritrade under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this proxy statement to the date of the Ameritrade special meeting will also be deemed to be incorporated into this proxy statement by reference.

You may also obtain copies of any document incorporated in this proxy statement, without charge, by requesting them in writing or by telephone at the following address:

Ameritrade Holding Corporation  
4211 South 102nd Street  
Omaha, Nebraska 68127  
*Attention: Investor Relations*  
(800) 237-8692

None of Ameritrade, TD or TD Waterhouse has authorized any person to give any information or make any representation about the acquisition of TD Waterhouse that is different from, or in addition to, that contained in this proxy statement or in any of the materials that are incorporated by reference in this proxy statement. Therefore, if anyone does give you information of this sort, you should not rely on it. The information contained in this proxy statement speaks only as of the date of this document unless the information specifically indicates that another date applies.

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**Appendix A  
EXECUTION COPY**

**AGREEMENT OF SALE AND PURCHASE  
between  
THE TORONTO-DOMINION BANK  
and  
AMERITRADE HOLDING CORPORATION  
Dated as of June 22, 2005**

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Exhibit B	Amended and Restated Registration Rights Agreement
Exhibit C	Voting Agreement
Exhibit D	Ameritrade Canada Purchase Agreement
Exhibit E	Form of Trademark License Agreement
Exhibit F	Form of Amended and Restated Bylaws of TD Ameritrade Holding Corporation
Exhibit G	Form of Amended and Restated Certificate of Incorporation of Ameritrade Holding Corporation
Exhibit H	Form of Money Market Deposit Account Agreement
Exhibit I	Form of Services Agreement

**Table of Contents****AGREEMENT OF SALE AND PURCHASE**

THIS AGREEMENT OF SALE AND PURCHASE (as amended, supplemented, restated or otherwise modified from time to time, this *Agreement* ) is entered into as of June 22, 2005 between The Toronto-Dominion Bank, a Canadian chartered bank ( *TD* ), and Ameritrade Holding Corporation, a Delaware corporation ( *Ameritrade* ).

**RECITALS**

WHEREAS, as of the date hereof, TD is the beneficial and record owner of all of the issued and outstanding shares of Class A common stock, par value \$0.01 per share of TD Waterhouse Group, Inc., a Delaware corporation ( *Waterhouse* ), which shares may be exchanged for a new class of common stock of Waterhouse and/or transferred to a wholly-owned Subsidiary of TD in connection with the Reorganization described below;

WHEREAS, the Board of Directors of each of Ameritrade and TD has approved and declared advisable this Agreement and has determined that it is in the best interests of the stockholders of such corporation to consummate the transactions provided for herein in which, among other things, Ameritrade shall purchase from TD all of the capital stock of Waterhouse (the *Share Purchase* ) and TD will receive, in consideration for all of the capital stock of Waterhouse, a number of shares of common stock, par value \$0.01 per share, of Ameritrade (the *Common Stock* ) as specified in this Agreement;

WHEREAS, prior to or concurrent with the completion of the Share Purchase, Waterhouse will complete the steps set forth in Section 5.14 of the TD Disclosure Schedule (the *Reorganization* );

WHEREAS, in connection with the transactions contemplated hereby, (i) Ameritrade, TD, J. Joe Ricketts and the related parties whose names are set forth on the signature pages of the Stockholders Agreement referred to below (collectively, together with J. Joe Ricketts, the *R Parties* ) are entering into a stockholders agreement in the form attached as Exhibit A hereto (as amended, supplemented, restated or otherwise modified from time to time, the *Stockholders Agreement* ), which, in part, is effective as of the date hereof and, in part, will become effective as of the Closing; (ii) Ameritrade, TD, the R Parties and the stockholders identified therein as the *SLP Parties* and the *TA Parties* are entering into an amended and restated registration rights agreement in the form attached as Exhibit B hereto (as amended, supplemented, restated or otherwise modified from time to time, the *Registration Rights Agreement* ), which will become effective as of the Closing; (iii) TD, the R Parties, the SLP Parties and the TA Parties are entering into a voting agreement in the form attached as Exhibit C hereto (as amended, supplemented, restated or otherwise modified from time to time, the *Voting Agreement* ) relating to, among other things, the agreement by the R Parties, the SLP Parties and the TA Parties to vote the shares of Common Stock held by them in favor of the approval of the Ameritrade Stock Issuance, the Ameritrade Restated Charter and any Additional Proposals; (iv) Ameritrade, TD, Datek Online Holdings Corp. and TD Waterhouse Canada Inc. ( *Waterhouse Canada* ) are entering into a stock purchase agreement in the form attached as Exhibit D hereto relating to the purchase by TD of the capital stock of Ameritrade Canada, Inc., an Ontario corporation ( *Ameritrade Canada* ) (as amended, supplemented, restated or otherwise modified from time to time, the *Ameritrade Canada Purchase Agreement* ); (v) Ameritrade and TD are entering into a trademark license agreement in the form attached as Exhibit E hereto (as amended, supplemented, restated or otherwise modified from time to time, the *Trademark License Agreement* ) which will become effective as of the Closing, relating to the use by Ameritrade of certain trademarks owned by TD; (vi) TD Waterhouse Bank, N.A., TD Waterhouse Investor Services, Inc., National Investor Services Corp., TD and Ameritrade shall enter into a Money Market Deposit Account Agreement substantially in the form attached as Exhibit H hereto (as amended, supplemented, restated or otherwise modified from time to time, the *Money Market Deposit Account Agreement* ) on the Closing Date; and (vii) Ameritrade, TD Asset Management USA Inc., TD Waterhouse Investor Services, Inc. and National Investor Services Corp. shall enter into a mutual fund services agreement substantially in the form attached as Exhibit I hereto (as amended, supplemented, restated or otherwise modified from time to time, the *Services Agreement* ) on the Closing Date;

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WHEREAS, it is contemplated that prior to the Closing, Ameritrade will declare and pay, subject to the terms and conditions of this Agreement, a one-time special cash dividend in respect of the Common Stock; and

WHEREAS, following the Closing, TD (and J. Joe Ricketts, if he elects to participate) will commence a tender offer pursuant to which TD (and J. Joe Ricketts, if he elects to participate) will offer to acquire additional shares of Common Stock, as provided in the Stockholders Agreement (the *Tender Offer* ).

NOW, THEREFORE, in consideration of the foregoing, and of the representations, warranties, covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

ARTICLE I

The Purchase and Sale

Section 1.1. *General.* On the terms and subject to the conditions set forth in this Agreement, at the Closing, TD shall sell, assign, transfer, convey and deliver to Ameritrade, and Ameritrade shall purchase from TD, all of the then-outstanding shares of Waterhouse Common Stock, representing all of the capital stock of Waterhouse.

Section 1.2. *Share Exchange.* In exchange for the shares of Waterhouse Common Stock transferred to Ameritrade at the Closing, Ameritrade shall, at the Closing, (i) issue and deliver to TD 193,600,000 validly issued, fully paid and non-assessable shares of Common Stock (the *Exchange Consideration* ) and (ii) pay to TD, by bank check or wire transfer to an account designated by TD at least two Business Days prior to the Closing, cash in the amount of \$20,000 (the *Cash Consideration* ); provided, however, that if at any time between the date of this Agreement and the Closing Ameritrade shall pay a dividend in shares of Common Stock, subdivide, split or combine the then-outstanding shares of Common Stock or issue additional shares of Common Stock by reclassification of its shares of Common Stock, then the number of shares of Common Stock constituting the Exchange Consideration shall be the product of (x) the number of shares of Common Stock constituting the Exchange Consideration immediately prior to the occurrence of such event multiplied by (y) a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately after, and the denominator of which shall be the number of such shares of Common Stock outstanding immediately before, the occurrence of such event, and the resulting product shall from and after the date of such event be the Exchange Consideration, subject to further adjustment in accordance with this sentence in the event of any subsequent such dividend, subdivision, split, combination or reclassification.

Section 1.3. *Closing Date Capital Adjustment.*

(a) Within 60 days after the Closing Date, Ameritrade will prepare and deliver to TD the information set forth in clauses (i) and (ii) below:

(i) for Waterhouse and the Business Subsidiaries, a consolidated balance sheet as of the Closing Date (the *Waterhouse Closing Date Balance Sheet* ). The Waterhouse Closing Date Balance Sheet shall (A) be prepared in accordance with GAAP (subject to the exceptions described below and in Section 1.3(a)(i)(A) of the disclosure schedule delivered by TD to Ameritrade concurrently with the execution and delivery of this Agreement (the *TD Disclosure Schedule* )), applied on a basis consistent with the preparation of the Waterhouse 2004 Financial Statements, (B) reflect the Reorganization, (C) reflect the accruals set forth in Section 1.3(a)(i)(C) of the TD Disclosure Schedule and (D) be accompanied by a statement showing Waterhouse's Closing Date Net Tangible Book Value and Targeted Closing Date Net Tangible Book Value, in each case based on the Waterhouse Closing Date Balance Sheet. TD will assist and cooperate with Ameritrade in the preparation of the Waterhouse Closing Date Balance Sheet, including by providing Ameritrade with

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reasonable access to any relevant personnel, books and records related to Waterhouse and the Business Subsidiaries that are in TD's possession.

(ii) for Ameritrade and its Subsidiaries, a consolidated balance sheet as of the Closing Date (the *Ameritrade Closing Date Balance Sheet*) and, together with the Waterhouse Closing Date Balance Sheet, the *Closing Date Balance Sheets*). The Ameritrade Closing Date Balance Sheet shall (A) be prepared in accordance with GAAP (subject to the exceptions described below and in Section 1.3(a)(ii)(A) of the disclosure schedule delivered by Ameritrade to TD concurrently with the execution and delivery of this Agreement (the *Ameritrade Disclosure Schedule*)), applied on a basis consistent with the preparation of the most recent audited financial statements of Ameritrade included in the Ameritrade SEC Documents filed with the SEC prior to the date of this Agreement, (B) reflect the payment or accrual of any Special Dividend (including any Special Dividend with a record date prior to the Closing that will be paid following the Closing) up to an amount equal to the product of \$1.00 and the aggregate number of shares of Common Stock actually outstanding as of the record date of any such Special Dividend (and not reflect the payment of any portion of the Special Dividend in excess of such amount), (C) not reflect any Special Dividend Indebtedness (or any proceeds received therefrom), except to the extent such Special Dividend Indebtedness exceeds an amount equal to the product of \$4.00 and the aggregate number of shares of Common Stock actually outstanding as of the record date of the Special Dividend, in which case the amount of such excess shall be reflected (but such amount shall in no event duplicate any accrual already reflected in (B) above), (D) reflect the adjustments set forth on Section 1.3(a)(ii)(D) of the Ameritrade Disclosure Schedule and (E) be accompanied by a statement showing Ameritrade's Closing Date Net Tangible Book Value and Targeted Closing Date Net Tangible Book Value, in each case based on the Ameritrade Closing Date Balance Sheet. The calculations of Ameritrade's and Waterhouse's respective Closing Date Net Tangible Book Values and Targeted Closing Date Net Tangible Book Values which accompany the Closing Date Balance Sheets are referred to collectively herein as the *Calculations*.

(b) Following the delivery by Ameritrade to TD of the Closing Date Balance Sheets and the Calculations, TD shall have a period of 30 days in which to review the Closing Date Balance Sheets and the Calculations. TD and its accountants shall be provided with reasonable access to the work papers of Ameritrade and its accountants and to the books and records of Ameritrade and its Subsidiaries and Waterhouse and the Business Subsidiaries in connection with such review. In the event that TD determines that either of the Closing Date Balance Sheets and/or any of the Calculations have not been prepared in compliance with the applicable requirements of Section 1.3(a) (taking into account (i) the various enumerated items in Section 1.3(a)(i)(A) through (C), in the case of the Waterhouse Closing Date Balance Sheet, (ii) the various enumerated items in Section 1.3(a)(ii)(A) through (D), in the case of the Ameritrade Closing Date Balance Sheet, and (iii) the defined terms contained therein), TD shall, on or before the last day of such 30-day period, inform Ameritrade in writing of such determination (the *TD Objection*), setting forth in reasonable detail a specific description of the basis of the TD Objection, the adjustments to the applicable Closing Date Balance Sheets which TD believes should be made, and, if different from Ameritrade's calculation thereof, TD's calculation of the Calculations, and TD shall be deemed to have accepted any items not specifically disputed in the TD Objection. Failure to so notify Ameritrade shall constitute acceptance and approval of Ameritrade's preparation of the Closing Date Balance Sheets and the Calculations.

(c) Ameritrade shall then have 30 days following the date it receives the TD Objection to review and respond to the TD Objection, during which period Ameritrade and TD shall negotiate in good faith to resolve the TD Objection. If Ameritrade and TD are unable to resolve all of their disagreements with respect to the determination of the foregoing items by the 30th day following the date on which Ameritrade receives the TD Objection, after having used their good faith efforts to reach a resolution, then TD and Ameritrade shall each submit the name of an accounting firm that is nationally recognized in the United States (other than the current independent auditors of either TD or Ameritrade), and Ameritrade and TD shall mutually select one firm from these two firms (such selected firm, the *CPA Firm*), who

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shall, acting as experts in accounting, determine on a basis consistent with the applicable requirements of Section 1.3(a) (taking into account (i) the various enumerated items in Section 1.3(a)(i)(A) through (C), in the case of the Waterhouse Closing Date Balance Sheet, (ii) the various enumerated items in Section 1.3(a)(ii)(A) through (D), in the case of the Ameritrade Closing Date Balance Sheet, and (iii) in each case the applicable defined terms contained in Section 1.3(a)), and only with respect to the specific remaining accounting-related differences so submitted, whether and to what extent either of the Closing Date Balance Sheets and/or any of the Calculations require adjustment. Each of TD and Ameritrade shall, and shall cause their respective Affiliates and representatives to, provide full cooperation to the CPA Firm. Ameritrade and TD shall request the CPA Firm to use all reasonable efforts to render its determination within 45 days following submission of such matters to the CPA Firm. The CPA Firm's determination shall be conclusive and binding upon Ameritrade and TD and shall be deemed a final arbitration award that is enforceable pursuant to the Federal Arbitration Act, 9 U.S.C. Sec. 1 et seq. Ameritrade and TD shall make reasonably available to the CPA Firm all relevant books and records, any work papers (including those of the parties' respective accountants, to the extent applicable) and supporting documentation relating to the Closing Date Balance Sheets and the Calculations, and all other items reasonably requested by the CPA Firm. The *Final Statement* of each of Waterhouse and Ameritrade shall mean, with respect to Waterhouse, the Waterhouse Closing Date Balance Sheet and the calculations of Waterhouse's Closing Date Net Tangible Book Value and Targeted Closing Date Net Tangible Book Value, and with respect to Ameritrade, the Ameritrade Closing Date Balance Sheet and the calculations of Ameritrade's Closing Date Net Tangible Book Value and Targeted Closing Date Net Tangible Book Value, in each case (i) as submitted by Ameritrade pursuant to Section 1.3(a) in the event that (A) no TD Objection is delivered to Ameritrade during the initial 30-day period specified above or (B) Ameritrade and TD so agree, (ii) as adjusted in accordance with the TD Objection, in the event that (A) Ameritrade does not respond to the TD Objection during the 30-day period specified above following receipt by Ameritrade of the TD Objection or (B) Ameritrade and TD so agree, (iii) as adjusted in accordance with the agreement of Ameritrade and TD, if Ameritrade and TD so agree during the 30-day period following receipt by Ameritrade of the TD Objection, or (iv) as adjusted by the CPA Firm, if it has been submitted to the CPA Firm for review, together with any other modifications to the applicable Closing Date Balance Sheet or Calculations agreed upon by Ameritrade and TD. All fees and expenses of the CPA Firm shall be shared equally by Ameritrade and TD.

(d) If Waterhouse's Closing Date Net Tangible Book Value, as set forth in Waterhouse's Final Statement, is less than its Targeted Closing Date Net Tangible Book Value, TD shall pay to Ameritrade as a contribution to capital an amount in cash equal to the sum of (i) the excess of Waterhouse's Targeted Closing Date Net Tangible Book Value over its Closing Date Net Tangible Book Value, each as set forth in Waterhouse's Final Statement, plus (ii) an amount calculated as if interest were payable on the amount paid under clause (i), computed at the daily effective Fed funds rate as published by the Federal Reserve (based on a 365-day year) (the *Fed Funds Rate*) for the period from the Closing Date to but excluding the date of such payment, in immediately available funds no later than the sixtieth (60th) day following the date on which Waterhouse's Final Statement is determined pursuant to Section 1.3(c) above. If Waterhouse's Closing Date Net Tangible Book Value, as set forth in Waterhouse's Final Statement, is greater than its Targeted Closing Date Net Tangible Book Value, Ameritrade shall pay TD an amount in cash as additional consideration equal to the sum of (x) the excess of Waterhouse's Closing Date Net Tangible Book Value over its Targeted Closing Date Net Tangible Book Value, as set forth in Waterhouse's Final Statement, plus (y) an amount calculated as if interest were payable on the amount paid under clause (x), computed at the Fed Funds Rate for the period from the Closing Date to but excluding the date of such payment, in immediately available funds no later than the sixtieth (60th) day following the date on which Waterhouse's Final Statement is determined pursuant to Section 1.3(c) above.

(e) If Ameritrade's Closing Date Net Tangible Book Value, as set forth in Ameritrade's Final Statement, is less than its Targeted Closing Date Net Tangible Book Value, Ameritrade shall pay to TD an amount in cash as additional consideration equal to the sum of (i) (x) the quotient of (A) the excess of Ameritrade's Targeted Closing Date Net Tangible Book Value over its Closing Date Net Tangible Book



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Value, each as set forth in Ameritrade's Final Statement, divided by (B) 1 minus TD's Ownership Percentage (expressed as a decimal) minus (y) the excess amount described in clause (A) above plus (ii) an amount calculated as if interest were payable on the amount paid under clause (i), computed at the Fed Funds Rate for the period from the Closing Date to but excluding the date of such payment, in immediately available funds no later than the sixtieth (60th) day following the date on which Ameritrade's Final Statement is determined pursuant to Section 1.3(c) above. If Ameritrade's Closing Date Net Tangible Book Value, as set forth in Ameritrade's Final Statement, is greater than its Targeted Closing Date Net Tangible Book Value, TD shall pay to Ameritrade as a capital contribution an amount in cash equal to the sum of (I)(x) the quotient of (aa) the excess of Ameritrade's Closing Date Net Tangible Book Value over its Targeted Closing Date Net Tangible Book Value, as set forth in Ameritrade's Final Statement, divided by (bb) 1 minus the Ownership Percentage (expressed as a decimal) minus (y) the excess amount described in clause (aa) above plus (II) an amount calculated as if interest were payable on the amount paid under clause (I), computed at the Fed Funds Rate for the period from the Closing Date to but excluding the date of such payment, in immediately available funds no later than the sixtieth (60th) day following the date on which Ameritrade's Final Statement is determined pursuant to Section 1.3(c) above.

(f) TD shall use commercially reasonable efforts to maintain (i) net capital (which amount is set forth in Box 3750 of the applicable Focus Report) of each of the Business Subsidiaries in excess of each such Business Subsidiary's respective Targeted Net Capital and (ii) Waterhouse Tangible Net Worth in excess of zero. Ameritrade shall use commercially reasonable efforts to maintain the net capital (which amount is set forth in Box 3750 of the applicable Focus Report) of each Subsidiary that is a registered broker-dealer in excess of its respective Targeted Net Capital.

## ARTICLE II

## Closing Procedures

Section 2.1. *Closing.* The closing of the Share Purchase (the *Closing*) shall take place on the third Business Day after the satisfaction or waiver of the conditions set forth in Article VI (other than those conditions which by their terms are to be satisfied at Closing), at the offices of Wilson Sonsini Goodrich & Rosati, Professional Corporation, 12 East 49th Street, New York, New York 10017-8203, or at such other time or place as TD and Ameritrade may mutually agree (the *Closing Date*).

Section 2.2. *Deliverables.*

(a) At the Closing, Ameritrade shall deliver or cause to be delivered to TD the following:

(i) certificates, registered in such name or names as TD may reasonably request, evidencing the shares of Common Stock to be issued to TD at the Closing, free and clear of any Encumbrances;

(ii) the Cash Consideration;

(iii) the certificates contemplated by Section 6.3; and

(iv) all other documents required to be delivered by Ameritrade on or prior to the Closing Date pursuant to this Agreement, including the Money Market Deposit Account Agreement and the Services Agreement.

(b) At the Closing, TD shall deliver or cause to be delivered to Ameritrade the following:

(i) the stock certificates representing all the issued and outstanding shares of Waterhouse Common Stock, with appropriate stock powers duly endorsed in blank or accompanied by other duly executed instruments of transfer, and with all required stock transfer tax stamps affixed thereto and cancelled, free and clear of all Encumbrances;

(ii) the certificates contemplated by Section 6.2; and

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(iii) all other documents required to be delivered by TD on or prior to the Closing Date pursuant to this Agreement, including the Money Market Deposit Account Agreement and the Services Agreement.

ARTICLE III

Representations and Warranties of TD

TD hereby represents and warrants to Ameritrade as follows:

Section 3.1. *Organization, Good Standing and Qualification.* Waterhouse is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and each of the Business Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each of Waterhouse and each of the Business Subsidiaries has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as currently conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, other than in such jurisdictions where the failure to so qualify or be in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Waterhouse. The certificate of incorporation and bylaws of Waterhouse and the Business Subsidiaries, copies of which were previously made available to Ameritrade, are true, complete and correct as in effect on the date of this Agreement.

Section 3.2. *Capitalization; Voting Rights.* (a) As of the date of this Agreement, the authorized capital stock of Waterhouse consists, and as of the Closing Date (except as contemplated by the Reorganization), the authorized capital stock of Waterhouse will consist, of 355,000,000 shares of Waterhouse Common Stock, of which there are 352,944,959.4 shares outstanding, and 18,000,000 shares of Class B Common stock, par value \$0.01 per share, of which there are no shares outstanding. All of the outstanding shares of Waterhouse Common Stock have been duly authorized and validly issued and are fully paid and non-assessable and not subject to preemptive rights. All of the shares of Waterhouse Common Stock issued and outstanding as of the date of this Agreement are owned by TD, free and clear of any Encumbrance.

(b) Except as set forth in Section 3.2(b) of the TD Disclosure Schedule and except for the exchangeable preference shares of Waterhouse Canada, which, prior to or concurrent with the Closing, TD shall cause to be cancelled or reorganized so as to no longer be exchangeable into shares of capital stock of Waterhouse or any of the Business Subsidiaries, or rights to acquire shares of capital stock of Waterhouse or any of the Business Subsidiaries, (i) there are no options, phantom stock, stock appreciation rights, warrants, calls, rights, commitments or agreements of any character to which Waterhouse or any of the Business Subsidiaries is a party or by which any of the foregoing are bound obligating Waterhouse or any of the Business Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock of Waterhouse or any of the Business Subsidiaries or obligating Waterhouse or any of the Business Subsidiaries to grant, extend or enter into any such option, phantom stock, stock appreciation rights, warrant, call, right, commitment or agreement, (ii) there are no outstanding contractual obligations of Waterhouse or any of the Business Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of Waterhouse or any of the Business Subsidiaries and (iii) there are no outstanding securities of any kind convertible into or exchangeable or exercisable for the capital stock of Waterhouse or any of its Subsidiaries.

(c) No bonds, debentures, notes or other indebtedness having the right to vote on any matters on which stockholders may vote ( *Voting Debt* ) of Waterhouse or any of the Business Subsidiaries are outstanding.

Section 3.3. *Subsidiaries.* Waterhouse owns, directly or indirectly, beneficially and of record 100% of the issued and outstanding shares of capital stock of each Business Subsidiary. All of the shares of capital stock of each of the Business Subsidiaries of Waterhouse have been duly authorized and validly

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issued and are fully paid and nonassessable and are owned by Waterhouse free and clear of any Encumbrance except as otherwise disclosed in Section 3.3 of the TD Disclosure Schedule. Except for the Business Subsidiaries and, as of the date of this Agreement, the Excluded Subsidiaries, Waterhouse does not own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any other Person for its own account. After giving effect to the Reorganization, Waterhouse will not own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any other Person for its own account other than the Business Subsidiaries.

Section 3.4. *Authorization; Binding Obligations.* (a) TD has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement and each of the Transaction Agreements to which it is or will be a party, and each Subsidiary of TD that is or will be a party to any Transaction Agreement has all requisite corporate power and authority to execute, deliver and perform its obligations under each such Transaction Agreement. The execution, delivery and performance by TD of this Agreement and each of the Transaction Agreements to which it is or will be a party and the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of TD and no other corporate actions by TD are necessary for the execution, delivery and performance by TD of this Agreement and each of the Transaction Agreements to which it is or will be a party and the consummation by TD of the transactions contemplated hereby and thereby. The execution, delivery and performance by each Subsidiary of TD of each of the Transaction Agreements to which it is a party, and the consummation of the transactions contemplated thereby, have been duly authorized by all necessary corporate action on the part of each such Subsidiary and no other corporate actions by such Subsidiary is necessary for the execution, delivery and performance by such Subsidiary of each such Transaction Agreement and the consummation by such Subsidiary of the transactions contemplated thereby.

(b) The Board of Directors of TD, at a meeting duly called and held, duly adopted resolutions approving this Agreement, each of the Transaction Agreements, the Share Purchase and the other transactions contemplated hereby and thereby.

(c) This Agreement has been duly executed and delivered by TD and (assuming due authorization, execution and delivery by Ameritrade) constitutes a valid and binding obligation of TD enforceable against TD in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting creditors' rights generally and by general equity principles.

(d) Each of the Transaction Agreements to be entered into on the date hereof has been, and each of the Transaction Agreements to be entered into after the date hereof, upon such entry will be, duly executed and delivered by TD (and/or the applicable Subsidiary or Subsidiaries of TD party thereto) and (assuming due authorization, execution and delivery thereof by the other parties thereto) constitutes a valid and binding obligation of TD (and/or the applicable Subsidiary or Subsidiaries of TD party thereto), enforceable against it in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to creditors' rights generally and by general equitable principles.

Section 3.5. *No Conflict.* (a) Except as set forth in Section 3.5(a) of the TD Disclosure Schedule, the execution and delivery by TD of this Agreement, the execution and delivery by TD (and/or the applicable Subsidiary of TD party thereto) of each of the Transaction Agreements to which it is or will be a party does not, and the consummation by TD and/or each such Subsidiary of the transactions contemplated hereby and thereby will not, conflict with, or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or the loss of a material benefit under, or the creation of any Encumbrance on any assets of Waterhouse or the Business Subsidiaries (any such conflict, violation, default, right of termination, cancellation or acceleration, loss or creation, a *Violation* ) pursuant to, (i) any provision of the charter, certificate of incorporation or bylaws or comparable organizational

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documents of TD, Waterhouse or any of the Business Subsidiaries, (ii) except as to which requisite waivers or consents have been obtained, and except for the consents and approvals required under the agreements and instruments listed in Section 3.5(a) of the TD Disclosure Schedule, any loan or credit agreement, note, mortgage, indenture, lease or other agreement, obligation or instrument to which Waterhouse or any Business Subsidiary is a party or by which any of their respective properties or assets may be bound, or (iii) any law, permit, concession, franchise, license, judgment, order, decree, statute, ordinance, rule or regulation applicable to Waterhouse or any Business Subsidiary or their respective properties or assets, assuming the consents, approvals, authorizations or permits and filings or notifications set forth in Section 3.5(a) of the TD Disclosure Schedule and paragraph (b) below are duly and timely obtained or made; other than a Violation, in the case of clauses (ii) and (iii), which would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Section 3.5(a) of the TD Disclosure Schedule lists all loan or credit agreements, notes, mortgages, indentures, leases or other agreements, obligations or instruments (other than the contracts and other agreements set forth in Section 3.8(a) of the TD Disclosure Schedule) to which Waterhouse or any Business Subsidiary is a party, or by which any of their respective properties or assets may be bound, which require the consent, waiver or approval of a party thereto (other than Waterhouse or a Business Subsidiary) in connection with the execution and delivery by TD of this Agreement or the Transaction Agreements and the consummation by it of the transactions contemplated hereby and thereby (including the Tender Offer), if the failure to obtain such consent, waiver or approval would be material to Waterhouse.

(b) Except as set forth in Section 3.5(b) of the TD Disclosure Schedule, no consent, approval, order or authorization of, notice to, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, including any industry self-regulatory organization (a *Governmental Authority* ) or with any Person other than a Governmental Authority (a *Third Party Approval* ), is required by or with respect to TD, Waterhouse or any Business Subsidiary in connection with the execution and delivery by TD of this Agreement or any of the Transaction Agreements, or the consummation by TD of the transactions contemplated hereby and thereby (including the Tender Offer), except for (i) the filing by Ameritrade with the SEC of a proxy statement in definitive form relating to the meeting of Ameritrade's stockholders to be held to approve the Ameritrade Stock Issuance, the Ameritrade Restated Charter and any Additional Proposal (the *SEC Proxy Statement* ) and the filing with the SEC by TD of a Schedule TO and related documents with respect to the Tender Offer, (ii) notification by Ameritrade to NASDAQ of the proposed issuance of the Common Stock to TD constituting the Exchange Consideration, (iii) notices under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the *HSR Act* ) and the expiration of applicable waiting periods thereunder, (iv) an application for an Advance Ruling Certificate or no-action letter to the Commissioner of Competition (Canada) and a pre-merger notification pursuant to the Competition Act (Canada) and the expiration of applicable waiting periods thereunder, (v) approval by the Minister of Finance (Canada) and the Superintendent of Financial Institutions (Canada) under the Bank Act (Canada) of the transactions contemplated by this Agreement and the use by Ameritrade of the TD name as contemplated by the Trademark License Agreement, (vi) notices with and approvals from the NASD, NYSE and the Canadian securities regulatory authorities and the other industry self-regulatory agencies listed in Section 3.5(b) of the TD Disclosure Schedule, (vii) the filing of the Ameritrade Restated Charter with the Secretary of State of the State of Delaware by Ameritrade and (viii) such other approvals, consents and orders of, and filings, notices and registrations with, Governmental Authorities and Third Party Approvals the failure of which to be made or obtained would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse.

Section 3.6. *Financial Statements.* (a) TD has delivered to Ameritrade a true, correct and complete copy of each of:

(i) the audited consolidated balance sheet, statement of income, statement of retained earnings and statement of cash flow for Waterhouse as of October 31, 2003 and for the fiscal year then ended (the *Waterhouse 2003 Financial Statements* );

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(ii) the unaudited consolidated balance sheet and statement of income for Waterhouse (excluding Waterhouse Canada) as of October 31, 2004 and for the fiscal year then ended (the *Waterhouse 2004 Financial Statements* );

(iii) the audited balance sheets, statements of income, statements of retained earnings and statements of cash flow for National Investor Services Corp. as of October 31, 2003 and October 31, 2004 and for the fiscal years then ended (the *NISC Financial Statements* );

(iv) the audited balance sheets, statements of income, statements of retained earnings and statements of cash flow for TD Waterhouse Investor Services, Inc. as of October 31, 2003 and October 31, 2004 and for the fiscal years then ended (the *Waterhouse Investor Services Financial Statements* );

(v) the audited balance sheets, statements of income, statements of retained earnings and statements of cash flow for TD Waterhouse Capital Markets, Inc. as of October 31, 2003 and October 31, 2004 and for the fiscal years then ended (the *Capital Markets Financial Statements* );

(vi) the unaudited consolidated statements of income for Waterhouse and the Business Subsidiaries (excluding all Excluded Subsidiaries) for each of the six calendar quarters beginning with the calendar quarter ended December 31, 2003 through the calendar quarter ended March 31, 2005 (the *Waterhouse Quarterly Financial Statements* ); and

(vii) the unaudited consolidated statement of income for Waterhouse and the Business Subsidiaries (excluding all Excluded Subsidiaries) as of April 30, 2005 and for the 12 months then ended and the unaudited consolidated balance sheet for Waterhouse and the Business Subsidiaries (excluding all Excluded Subsidiaries) as of April 30, 2005 (the *Waterhouse Business Financial Statements* and together with the financial statements described in clauses (i) through (vi) above, the *Waterhouse Financial Statements* ).

(b) (i) The Waterhouse Financial Statements were prepared in accordance with GAAP applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto or in Section 3.6(b) of the TD Disclosure Schedule).

(ii) The Waterhouse 2003 Financial Statements fairly present in all material respects the consolidated financial condition and the results of operations of Waterhouse and its consolidated Subsidiaries as the dates and for the period presented.

(iii) The Waterhouse 2004 Financial Statements fairly present in all material respects the consolidated financial condition and the results of operations of Waterhouse and its consolidated Subsidiaries (excluding Waterhouse Canada) as of the dates and for the period presented, except that the Waterhouse 2004 Financial Statements do not include a statement of retained earnings or a statement of cash flow.

(iv) The NISC Financial Statements, the Waterhouse Investor Services Financial Statements and the Capital Markets Financial Statements fairly present in all material respects the financial condition and the results of operations of the applicable Business Subsidiary as the dates and for the period presented.

(v) The unaudited statements of income for Waterhouse included in the Waterhouse Quarterly Financial Statements fairly present in all material respects the results of operations of Waterhouse and the Business Subsidiaries (excluding all Excluded Subsidiaries) for the applicable periods presented, except that the Waterhouse Quarterly Financial Statements do not include a statement of retained earnings or a statement of cash flow.

(vi) The Waterhouse Business Financial Statements fairly present in all material respects the consolidated financial condition and the results of operations of Waterhouse and the Business Subsidiaries (excluding all Excluded Subsidiaries) for the applicable periods presented, except that



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the Waterhouse Business Financial Statements do not include a statement of retained earnings or a statement of cash flow.

(c) TD has made available to Ameritrade copies of all material documentation relating to the internal controls or other accounting practices of Waterhouse and each of the Business Subsidiaries with respect to their respective businesses.

Section 3.7. *Information Supplied.* None of the information supplied or to be supplied by TD expressly for inclusion in the SEC Proxy Statement will, at the date of mailing to stockholders of Ameritrade and at the time of the meeting of stockholders of Ameritrade (the *Ameritrade Stockholders Meeting* ) to be held in connection with obtaining the Ameritrade Required Votes (as defined in Section 4.22) and any Additional Votes (as defined in Section 5.3(b)), (i) contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading or (ii) at the time and in the light of the circumstances under which it is made, be false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the Ameritrade Stockholders Meeting which has become false or misleading.

Section 3.8. *Certain Agreements.* (a) Section 3.8(a) of the TD Disclosure Schedule sets forth a listing, as of the date hereof, of all of the following contracts and other agreements, oral or written, to which Waterhouse or any of the Business Subsidiaries is a party or by which Waterhouse or any of the Business Subsidiaries or any of their respective assets or properties is bound:

(i) consulting agreements not terminable on notice of three months or less and involving the payment of more than \$50,000 per annum;

(ii) agreements with any employee at the level of senior vice president or above of Waterhouse or any of the Business Subsidiaries (A) providing any term of employment, (B) the benefits of which are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving Waterhouse of the nature contemplated by this Agreement (either alone or in connection with a termination of employment), or (C) providing severance benefits;

(iii) contracts and other agreements for the sale or lease (other than where Waterhouse or any of the Business Subsidiaries is a lessor) of any assets or properties (other than in the ordinary course of business) or for the grant to any Person (other than to Waterhouse or any of the Business Subsidiaries) of any preferential rights to purchase any assets or properties;

(iv) contracts and other agreements relating to the acquisition by Waterhouse or any of the Business Subsidiaries of any operating business or entity or any interest therein (other than acquisitions of securities for the account of or for sale to customers in the ordinary course of business);

(v) material contracts and other agreements evidencing outstanding loans to, or guaranteeing any loans on behalf of, any employee or consultant of Waterhouse or any of the Business Subsidiaries (other than routine expense advances consistent with past practice and other than margin loans extended in the ordinary course of business consistent with past practice);

(vi) contracts or other agreements under which Waterhouse or any of the Business Subsidiaries agrees to indemnify any party, other than in the ordinary course of business consistent with past practice, or to share a Tax liability of any party;

(vii) (A) contracts and other agreements containing covenants restricting Waterhouse or any of the Business Subsidiaries from competing in any line of business or with any Person in any geographic area or requiring Waterhouse or any of the Business Subsidiaries to engage in any line of business or binding Waterhouse or any of

the Business Subsidiaries to any exclusive business arrangements or licenses, or which require the referral of any business or business opportunity or require Waterhouse

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or any of the Business Subsidiaries to make available business opportunities or products or services on a priority, equal or exclusive basis (including any preferred provider type contracts or other agreements for products and services offered by Waterhouse and the Business Subsidiaries to their customers) and (B) any agreements of such types that could apply to Ameritrade or any of its Affiliates after the Closing by reason of the Share Purchase and the consummation of the other transactions contemplated hereby and by the Transaction Agreements;

(viii) any material contracts or other agreements under which Waterhouse or any of the Business Subsidiaries have outsourced, or have agreed to outsource, any of their products, services or employees;

(ix) any material Intellectual Property licenses (as defined in Section 3.11(a)) to or from any Third Parties, and any joint development agreements;

(x) any contracts or agreements governing joint ventures between Waterhouse or any Business Subsidiary and a third party;

(xi) contracts or other agreements (other than contracts or other agreements in the ordinary course of business) relating to the borrowing of money by Waterhouse or any of the Business Subsidiaries, or the direct or indirect guaranty by Waterhouse or any of the Business Subsidiaries of any obligation for, or an agreement by Waterhouse or any of the Business Subsidiaries to service, the repayment of borrowed money, or any other contingent obligations of Waterhouse or any of the Business Subsidiaries in respect of indebtedness of any other Person; and

(xii) any other material contract or other agreement whether or not made in the ordinary course of business, including any contract that would be required to be filed by Waterhouse pursuant to Item 601(b)(10) of Regulation S-K of the SEC were it subject to the reporting requirements of Sections 13(a) or 15(d) of the Exchange Act.

(b) There have been delivered or made available to Ameritrade true and complete copies of all of the contracts and other agreements set forth in Section 3.8(a) of the TD Disclosure Schedule. Except as set forth in Section 3.8(b) of the TD Disclosure Schedule, each such contract and other agreement is in full force and effect and constitutes a legal, valid, and binding obligation of Waterhouse or the Business Subsidiaries, as the case may be, and to the knowledge of TD, each other party thereto, enforceable in accordance with its terms. Neither Waterhouse nor any Business Subsidiary has received any notice, whether written or oral, of termination or intention to terminate from any other party to such contract or agreement. None of Waterhouse or any of the Business Subsidiaries or (to the knowledge of TD) any other party to any such contract or agreement is in violation or breach of or default under any such contract or agreement (or with notice or lapse of time or both, would be in violation or breach of or default under any such contract or agreement), which violation, breach, or default has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse.

Section 3.9. *Changes.* Except as set forth in Section 3.9 of the TD Disclosure Schedule, since October 31, 2004, there has not been any change, or any event involving a prospective change, in the business, financial condition or results of operations of Waterhouse or any of the Business Subsidiaries which has had, or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Except as set forth in Section 3.9 of the TD Disclosure Schedule and except for the transactions relating to the Reorganization, since April 30, 2005, Waterhouse and each of the Business Subsidiaries have conducted their respective businesses in the ordinary course consistent with their past practices and neither Waterhouse nor any of the Business Subsidiaries has taken any action or entered into any transaction, and no event has occurred, that would have required Ameritrade's consent pursuant to Section 5.1 of this Agreement if such action had been taken, transaction entered into or event had occurred, in each case, after the date of this Agreement, nor has Waterhouse or any of the Business Subsidiaries entered into any agreement, plan or arrangement to do any of the foregoing.

Section 3.10. *Title to Properties and Assets; Liens, Condition, Etc.* (a) Except as set forth in Section 3.10(a) of the TD Disclosure Schedule, Waterhouse or one of the Business Subsidiaries has good



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and marketable title to all the properties and assets reflected in the Waterhouse Financial Statements as being owned by Waterhouse or one of the Business Subsidiaries or acquired after the date thereof which are material to the business of Waterhouse and the Business Subsidiaries on a consolidated basis (except properties sold or otherwise disposed of since the date thereof in the ordinary course of business), free and clear of all Encumbrances except (i) statutory Encumbrances for Taxes and other payments not yet due or which are being contested in good faith and for which adequate reserves have been provided, (ii) liens of tradesmen arising or incurred in the ordinary course of business, (iii) zoning, building, occupancy and similar governmental restrictions and (iv) covenants, easements, rights-of-way and other matters shown on public records, and such imperfections or irregularities of title, claims or Encumbrances as do not materially affect the use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties.

(b) Neither Waterhouse nor any of the Business Subsidiaries owns any real property. Section 3.10(b) of the TD Disclosure Schedule sets forth a list of all material real property currently leased, subleased or licensed by or from Waterhouse or any of the Business Subsidiaries or otherwise used or occupied by Waterhouse or any of the Business Subsidiaries (the *Waterhouse Facilities* ). TD has made available to Ameritrade true, correct and complete copies of all leases, lease guaranties and subleases relating to the Waterhouse Facilities, including all amendments, terminations and modifications thereof (the *Waterhouse Leases* ). Each such Waterhouse Lease is in full force and effect and constitutes a legal, valid and binding obligation of Waterhouse or the Business Subsidiaries, as the case may be, and to the knowledge of TD, each other party thereto, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to creditor s rights generally and by general equitable principles. None of Waterhouse or any of the Business Subsidiaries or (to the knowledge of TD) any other party to such Waterhouse Lease, is in material violation or breach of or default under (or with notice or lapse of time or both, would be in violation or breach of or default under) any such Waterhouse Lease.

Section 3.11. *Intellectual Property.* (a) Waterhouse and the Business Subsidiaries (i) own or have the valid right to use all the material intellectual property rights, including patents, inventions, technology, copyrights, software, know-how, trademarks, service marks, trade dress, trade names, logos, domain names, trade secrets, data and confidential information (the *Intellectual Property* ) necessary or used in their businesses as currently conducted, and as currently planned to be conducted, in the case of owned Intellectual Property, free and clear of all Encumbrances (other than pursuant to licenses relating thereto), (ii) have taken reasonable actions to protect and maintain the validity and ownership of such Intellectual Property, and (iii) have not granted to any third party, by license or otherwise, any material right or interest in such Intellectual Property.

(b) Section 3.11(b) of the TD Disclosure Schedule sets forth a list of all (i) patents, patent applications, registered trademarks or service marks and registered copyrights and domain names, and applications or licenses for registration thereof, that are owned by Waterhouse or the Business Subsidiaries (excluding, in the case of Waterhouse, any such applications, registrations and/or licenses used solely in connection with the business conducted by the Excluded Subsidiaries) and all such registrations are, to the knowledge of TD, valid and subsisting, and (ii) material software and technology owned by Waterhouse or the Business Subsidiaries (excluding, in the case of Waterhouse, any such software and technology used solely in connection with the business conducted by the Excluded Subsidiaries).

(c) TD has made all reasonable efforts to secure the valid right to use the TD trademark, service mark, trade dress, trade name and logo in all jurisdictions in which TD currently conducts its business or plans to conduct its business. Except as set forth in Section 3.11(c) of the TD Disclosure Schedule, to the knowledge of TD, TD s use of the TD trademark, service mark, trade dress, trade name and logo has not infringed upon, or otherwise come into conflict with, any Intellectual Property of any other Person. Except as set forth in Section 3.11(c) of the TD Disclosure Schedule, TD has not licensed or granted any third party any rights to the TD or WATERHOUSE trademarks, service marks, trade names or logos other than time-limited rights in the ordinary course of business, the use of which rights is always pursuant to a written license agreement and is strictly monitored and controlled.

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(d) To the knowledge of TD, neither Waterhouse nor any of the Business Subsidiaries, nor the operation of their business, has materially infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property or other proprietary information of any other Person or constituted unfair competition or trade practices of the laws of any jurisdiction except as set forth in Section 3.11(d) of the TD Disclosure Schedule. During the two years preceding the date of this Agreement except as set forth on Section 3.11(d) of the TD Disclosure Schedule, (i) neither Waterhouse nor any of the Business Subsidiaries has received any written material charge, complaint, claim, demand or notice alleging any such infringement, misappropriation or other conflict (including any claim that Waterhouse or any Business Subsidiary must license or refrain from using any Intellectual Property or other proprietary information of any other Person), and (ii) neither Waterhouse nor any of the Business Subsidiaries is party to or the subject of any pending or, to the knowledge of TD, threatened, action before or by any Governmental Authority with respect to any such material infringement, misappropriation or conflict. To the knowledge of TD, no other Person has infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property owned by, licensed to or otherwise used by Waterhouse or any of the Business Subsidiaries, except for any such infringement, misappropriation or other conflict that, individually or in the aggregate has not had and is not reasonably expected to have, individually or in the aggregate a Material Adverse Effect on Waterhouse.

(e) Each of Waterhouse and the Business Subsidiaries has taken all reasonable and necessary steps to protect their material Intellectual Property and rights thereunder, and, to the knowledge of TD, no such rights to material Intellectual Property have been lost or are in jeopardy of being lost as a result of any act or omission by Waterhouse or any of the Business Subsidiaries.

(f) To the knowledge of TD, no material software used in the business of Waterhouse or any of the Business Subsidiaries as currently conducted is, includes or is otherwise derivative of any software (i) for which the source code is in the public domain, or (ii) that includes open source code or is licensed pursuant to an open source license or under a similar licensing or distribution model.

Section 3.12. *Compliance with Laws and Other Instruments; Consents and Approvals.* (a) Waterhouse and the Business Subsidiaries hold all permits, licenses, variances, exemptions, authorizations, registrations, consents, certificates, orders and approvals of all Governmental Authorities which are material to the operation of the businesses of Waterhouse and the Business Subsidiaries, taken as a whole (the *Waterhouse Permits*). Waterhouse and the Business Subsidiaries are in compliance in all material respects with the terms of the Waterhouse Permits. The businesses of Waterhouse and the Business Subsidiaries are not being conducted in violation of any law, ordinance or regulation of any Governmental Authority, except for possible violations which do not, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Except as set forth in Section 3.12(a) of the TD Disclosure Schedule and except for routine examinations by federal or state Governmental Authorities charged with the supervision or regulation of securities brokers or investment advisors, to the knowledge of TD, (i) no investigation by any Governmental Authority with respect to Waterhouse or any of the Business Subsidiaries is pending or threatened, other than, in each case, those the outcome of which would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse, and (ii) no proceedings by any such Governmental Authority are pending or threatened which seek to revoke or materially limit any of the Waterhouse Permits. Except as set forth in Section 3.12(a) of the TD Disclosure Schedule, there is no material unresolved criticism, violation or exception by any Governmental Authority with respect to any report, registration or other statement filed by, or relating to any examinations by any such Governmental Authority of, Waterhouse or any of the Business Subsidiaries.

(b) Waterhouse and the Business Subsidiaries have timely filed all registrations, declarations, reports, notices, forms and other filings required to be filed with the SEC, NASD, NASDAQ, NYSE, any clearing agency or any other Governmental Authority, and all amendments or supplements to any of the foregoing (the *Waterhouse Filings*), except where any failure to file would not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. The Waterhouse Filings are in

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full force and effect and were prepared in all material respects in accordance with applicable law, and all material fees and assessments due and payable in connection therewith have been paid.

(c) Waterhouse and the Business Subsidiaries and each of their respective officers and employees who are required to be registered, licensed or qualified as (x) a broker-dealer or (y) a registered principal, registered representative, investment adviser representative, futures commission merchant, insurance agent or salesperson with the SEC (or in equivalent capacities with the securities or insurance commission of any other Governmental Authority) are duly registered as such and such registrations are in full force and effect, or are in the process of being registered as such within the time periods required by applicable law, except, in the case of clause (y), for such failures to be so registered as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Waterhouse and the Business Subsidiaries and each of their respective officers and employees are in compliance with all applicable federal, state and foreign laws requiring any such registration, licensing or qualification, have filed all periodic reports required to be filed with respect thereto (and all such reports are accurate and complete in all material respects), and are not subject to any material liability or disability by reason of the failure to be so registered, licensed or qualified, except, in the case of such registrations, licensing or qualification, reports, liabilities or disabilities relating to the registrations described in clause (y) of the preceding sentence, for such failures to be so registered, licensed or qualified, failures with respect to such reports and such liabilities or disabilities as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse.

(d) TD has delivered or made available to Ameritrade a true and complete copy of the currently effective Forms ADV and BD as filed with the SEC by each Business Subsidiary, all state and other federal registration forms, all reports and all material correspondence filed by Waterhouse and each Business Subsidiary with any Governmental Authority under the Exchange Act, the Investment Company Act, the Advisers Act and under similar state statutes within the last three years. TD shall deliver to Ameritrade true and complete copies of any such forms and reports as are filed by Waterhouse and each Business Subsidiary from and after the date hereof until the Closing. The information contained in such forms and reports was (or will be, in the case of any forms and reports filed after the date hereof) complete and accurate in all material respects as of the time of filing thereof.

(e) Except as disclosed on Forms ADV or BD filed prior to the date of this Agreement, none of Waterhouse, any of the Business Subsidiaries or any of their directors, officers, employees, associated persons (as defined in the Exchange Act) or affiliated persons (as defined in the Investment Company Act) has been the subject of any disciplinary proceedings or orders of any Governmental Authority arising under applicable laws which would be required to be disclosed on Forms ADV or BD. No such disciplinary proceeding or order is pending or, to the knowledge of TD, threatened. Except as disclosed on such Forms ADV or BD filed prior to the date of this Agreement, none of Waterhouse, any of the Business Subsidiaries or any of their respective directors, officers, employees, associated persons or affiliated persons, has been permanently enjoined by the order of any Governmental Authority from engaging or continuing any conduct or practice in connection with any activity or in connection with the purchase or sale of any security. Except as disclosed on such Forms ADV or BD filed prior to the date of this Agreement, none of Waterhouse, any of the Business Subsidiaries or any of their respective directors, officers, employees, associated persons or affiliated persons is or has been ineligible to serve as an investment adviser under the Advisers Act (including pursuant to Section 203(e) or (f) thereof) or as a broker-dealer or an associated person of a broker-dealer under Section 15(b) of the Exchange Act (including being subject to any statutory disqualification as defined in Section 3(a)(39) of the Exchange Act), or ineligible to serve in, or subject to any disqualification which would be the basis for any limitation on serving in, any of the capacities specified in Section 9(a) or 9(b) of the Investment Company Act or any substantially equivalent foreign expulsion, suspension or disqualification.

(f) Waterhouse and the Business Subsidiaries have at all times since December 31, 2001 or their respective dates of formation, whichever is later, rendered investment advisory services to investment advisory clients with whom such entity is or was a party to an investment advisory agreement or similar arrangement in material compliance with all applicable requirements as to portfolio composition and

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portfolio management including, but not limited to, the terms of such investment advisory agreements, written instructions from such investment advisory clients, prospectuses or other offering materials, board of directors or trustee directives and applicable law. Neither Waterhouse nor any of the Business Subsidiaries is, or is required to register as, an investment company within the meaning of the Investment Company Act.

(g) Section 3.12(g) of the TD Disclosure Schedule sets forth a complete list of all securities exchanges, commodities exchanges, boards of trade, clearing organizations, trade associations and similar organizations in which Waterhouse or any of the Business Subsidiaries holds membership or has been granted trading privileges.

(h) Section 3.12(h) of the TD Disclosure Schedule sets forth with respect to Waterhouse and the Business Subsidiaries a complete list of all (i) broker-dealer licenses or registrations and (ii) all licenses and registrations as an investment adviser under the Advisers Act or any similar state laws. Except as set forth on Section 3.12(h) of the TD Disclosure Schedule, neither Waterhouse nor any of the Business Subsidiaries is, or is required to be, registered as a futures commission merchant, commodities trading adviser, commodity pool operator or introducing broker under the Commodities Futures Trading Act or any similar state laws.

(i) Neither TD nor Waterhouse has received any objections from the NYSE with respect to the operation of Waterhouse's FDIC-insured sweep product in its present form.

Section 3.13. *Litigation.* Except as set forth in Section 3.13 of the TD Disclosure Schedule, there is no action, suit, proceeding, or investigation in any court or before any Governmental Authority ( *Litigation* ) pending, or to TD's knowledge, currently threatened against Waterhouse or any of the Business Subsidiaries which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Neither Waterhouse nor any of the Business Subsidiaries is subject to any injunction, decree, settlement or other similar equitable relief or judicial judgment or decision which materially affects the conduct of their business or operations or that of any of their Affiliates (including any Person who becomes an Affiliate as a result of the transactions contemplated by this Agreement).

Section 3.14. *Tax Matters.* Except as set forth in Section 3.14 of the TD Disclosure Schedule, (a) (i) all material Tax returns, estimates, statements, reports and forms (collectively, the *Returns* ) that are required to be filed with any Taxing Authority on or before the Closing Date with respect to any Pre-Closing Tax Period by, or with respect to, Waterhouse or any of the Business Subsidiaries (which, for purposes of this Section 3.14, shall include the Excluded Subsidiaries, but only to the extent such Excluded Subsidiaries are included in a consolidated, unified or combined Return of Waterhouse or any of the Business Subsidiaries) have been, or will be, timely filed on or before the Closing Date; (ii) the Returns that have been or will be filed are true, correct and complete in all material respects; (iii) Waterhouse and the Business Subsidiaries have timely paid or will timely pay all Taxes shown as due and payable on such Returns; (iv) the charges, accruals or reserves reflected on the balance sheet included in the Waterhouse Business Financial Statements are adequate to cover all unpaid material Tax liabilities of Waterhouse and the Business Subsidiaries accruing through April 30, 2005 and except in connection with the Reorganization, Waterhouse and the Business Subsidiaries have not incurred any material Tax since April 30, 2005, except in the ordinary course of business; and (v) there is no action, suit, proceeding, investigation, audit or claim now proposed or pending against or with respect to Waterhouse or the Business Subsidiaries in respect of any material Tax.

(b) All material Taxes which Waterhouse and the Business Subsidiaries are (or were) required by law to withhold or collect (i) in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party, or (ii) in connection with any dividends paid in accordance with Section 5.1(a), or the distribution of the Excluded Subsidiaries or other assets of Waterhouse pursuant to the Reorganization, have been duly withheld or collected, and any such Taxes have been timely paid to the appropriate Taxing Authority to the extent due and payable.

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(c) The transactions contemplated by this Agreement will not result in the recognition of a material amount of deferred intercompany gain by Waterhouse or the Business Subsidiaries under the deferred intercompany transaction rules of the Internal Revenue Code of 1986, as amended (the *Code*) and the United States Treasury Regulations.

(d) None of Waterhouse or any of the Business Subsidiaries (i) has entered into an agreement or waiver or been requested to enter into an agreement or waiver extending any statute of limitations relating to the assessment, payment or collection of material Taxes or is contesting a material Tax liability before a court, tribunal or agency, (ii) has been or will be as of the Closing Date a United States real property holding corporation within the meaning of Section 897 of the Code, (iii) is a party to any Tax sharing, allocation, indemnification or similar agreement, nor owes any amount under any such agreement, (iv) has constituted either a distributing corporation or a controlled corporation in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code, or (v) has engaged in a transaction that is a reportable transaction within the meaning of Treasury Regulations Section 1.6011-4(b)(1) or that is the same as or substantially similar to one of the types of transactions that the Internal Revenue Service has determined to be a tax avoidance transaction and identified by notice, regulation, or other form of published guidance as a listed transaction, as set forth in Treasury Regulations Section 1.6011-4(b)(2), which is not fully disclosed on a Return.

Section 3.15. *Benefit Plans.* (a) Section 3.15(a) of the TD Disclosure Schedule contains a true and complete list of each material Benefit Plan that is sponsored or is being maintained or contributed to, or required to be contributed to, by Waterhouse or any of its current or former ERISA Affiliates (as defined below) for the benefit of any current, former or retired employee, consultant or director of Waterhouse or the Business Subsidiaries and under which Waterhouse or any of the Business Subsidiaries has any present or future liability (the *Waterhouse Benefit Plans*). For purposes of this Agreement, *Benefit Plans* shall mean each employee benefit plan (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (*ERISA*)), including multiemployer plans (within the meaning of ERISA Section 3(37)), and all stock purchase, stock option, severance, employment, change-in-control, fringe benefit, collective bargaining, bonus, incentive, deferred compensation and all other employee benefit plans, agreements, programs, policies or other arrangements, whether or not subject to ERISA, and whether formal or informal, oral or written. For purposes of this Agreement, *ERISA Affiliate* shall mean, with reference to any party to this Agreement, each Subsidiary of such party and any other person or entity under common control with such party or any of its Subsidiaries within the meaning of Section 414(b), (c), (m) or (o) of the Code and the regulations thereunder. No Waterhouse Benefit Plan is a multiemployer plan or is maintained pursuant to a collective bargaining agreement, and neither Waterhouse nor any of its Business Subsidiaries has any liability under any multiemployer plan that remains unsatisfied. No Waterhouse Benefit Plan is a multiple employer plan as defined in ERISA or the Code. No Waterhouse Benefit Plan is an employee pension benefit plan within the meaning of Section 3(2) of ERISA that is subject to Title IV of ERISA or Section 412 of the Code.

(b) With respect to each material Waterhouse Benefit Plan, TD has delivered or made available to Ameritrade a current, accurate and complete copy of each material document embodying such Waterhouse Benefit Plan (or, to the extent no written document exists, an accurate description) and, to the extent applicable, (i) any related trust agreement or other funding instrument; (ii) the most recent determination letter; (iii) any summary plan description and other written communications from Waterhouse or any of the Business Subsidiaries to any of their respective employees concerning the extent of the benefits provided under any Waterhouse Benefit Plan; and (iv) for the two most recent years (A) the Form 5500 and attached schedules or other annual report, return, securities registration statement or other filing, if any, required to be filed with any Governmental Authority; (B) audited financial statements; (C) actuarial valuation reports, and (D) all material correspondence to or from any Governmental Authority relating to any Waterhouse Benefit Plan and with respect to which Waterhouse has or may have any material liability.

(c) Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse, (i) each Waterhouse Benefit Plan has been established and administered

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in accordance with its terms, and in compliance with the applicable provisions of ERISA, the Code and other applicable laws, rules and regulations; (ii) with respect to any Waterhouse Benefit Plan, no audits, actions, suits or claims (other than routine claims for benefits in the ordinary course) are pending or threatened, and no facts or circumstances exist which could give rise to any such audits, actions, suits or claims; (iii) neither Waterhouse nor any other party has engaged in a prohibited transaction which could subject Waterhouse or any of the Business Subsidiaries to any taxes, penalties or other liabilities under Code section 4975 or ERISA sections 409 or 502(i); (iv) all contributions and other payments required by and due under the terms of each Waterhouse Benefit Plan have been made; (v) each Waterhouse Benefit Plan which is intended to be qualified within the meaning of Code Section 401(a) has received a favorable determination letter as to its qualification and nothing has occurred, whether by action or failure to act, which would cause the loss of such qualification; (vi) no audits, proceedings or administrative actions have been taken by a Governmental Authority within the past two years with respect to any Waterhouse Benefit Plan; and (vii) neither Waterhouse nor any of the Business Subsidiaries are subject to any material penalty, tax, excise tax, fine or sanction with respect to any Waterhouse Benefit Plan.

(d) Except as set forth on Section 3.15(d) of the TD Disclosure Schedule, as of the date hereof, neither Waterhouse nor any of the Business Subsidiaries has any plan or commitment to establish any new material Waterhouse Benefit Plan, to modify any material Waterhouse Benefit Plan (except to the extent required by applicable law or to conform any such Waterhouse Benefit Plan to the requirements of any applicable law), or to adopt or enter into any material Waterhouse Benefit Plan. No Waterhouse Benefit Plan is a funded welfare plan within the meaning of Section 419 of the Code. Except as set forth on Section 3.15(d) of the TD Disclosure Schedule, no Waterhouse Benefit Plan provides health benefits that are not fully insured through an insurance contract.

(e) Except as set forth on Section 3.15(e) of the TD Disclosure Schedule, no Waterhouse Benefit Plan provides, or reflects or represents any liability to provide, post-termination or retiree welfare benefit coverage to any Waterhouse employee, contractor or director for any reason, except as may be required by applicable law.

(f) Waterhouse has made available to Ameritrade, a true, correct and complete list, as of the date hereof, of the position, salary and date of hire (without name) of each employee, consultant and director of Waterhouse and its Business Subsidiaries, as well as the aggregate bonus goals by employee grouping for the current fiscal year.

(g) With respect to each Waterhouse International Benefit Plan, and the books and records thereof, (i) such plan is in material compliance with all applicable laws of each applicable jurisdiction; and (ii) no such plan is or within the last two calendar years has been the subject of, or has received notice that it is the subject of, an examination by a government agency or a participant in a government sponsored amnesty, voluntary compliance or similar program that has had, or would reasonably be expected to have, a Material Adverse Effect on Waterhouse. For purposes of this Agreement, *Waterhouse International Benefit Plan* means each material Waterhouse Benefit Plan that, within six years prior to the date hereof, has been adopted or maintained by Waterhouse or any of its ERISA Affiliates, whether formally or informally, and with respect to which Waterhouse or any of the Business Subsidiaries has any liability, for the benefit of current or former employees, consultants or directors who perform services outside the United States. The present value of the accrued benefit liabilities (whether or not vested) attributable to employees and former employees of Waterhouse or any of the Business Subsidiaries or for which Waterhouse or any of the Business Subsidiaries is liable under each Waterhouse International Benefit Plan required to be funded under applicable law that provides pension, retirement, early retirement, profit sharing, deferred compensation or other similar benefits but excluding welfare benefits, determined as of December 31, 2004 did not exceed, in any material respect, the current value of the assets of such Waterhouse International Benefit Plan allocable to such benefit liabilities. Section 3.15(g) of the TD Disclosure Schedule identifies each Waterhouse International Benefit Plan that is not required to be funded under applicable law and the present value of accrued benefits liabilities as of December 31, 2004 that are not accrued, reflected or reserved for in the Waterhouse Financial Statements or offset by insurance.

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(h) Section 3.15(h) of the TD Disclosure Schedule sets forth a true, correct and complete list of all severance plans, agreements and arrangements to which Waterhouse or any of its Business Subsidiaries is a party or by which any of their assets or properties are bound.

(i) Except as set forth in Section 3.15(i) of the TD Disclosure Schedule, (i) no Waterhouse Benefit Plan exists which provides for an increase in benefits on or after the Closing Date or could result in the payment to any current or former employee, consultant or director of Waterhouse or any of its Business Subsidiaries of any money or other property or rights or accelerate or Waterhouse provide any other rights or benefits (including forgiveness of indebtedness) to any such current or former employee, consultant or director as a result of the transactions contemplated by this Agreement and (ii) there is no contract, plan or arrangement (written or otherwise) covering any current or former employee, director or consultant of Waterhouse or any of its Business Subsidiaries that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to the terms of Section 280G of the Code or would be subject to excise tax under Section 4999 of the Code.

Section 3.16. *Agreements with Regulators.* Except as set forth in Section 3.16 of the TD Disclosure Schedule, neither Waterhouse nor any of the Business Subsidiaries is a party to any written agreement or memorandum of understanding with, or a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or is a recipient of any extraordinary supervisory letter from, or has adopted any board resolutions at the request of, any Governmental Authority which restricts materially the conduct by Waterhouse and the Business Subsidiaries of their businesses, or in any manner relates to their capital adequacy, credit policies or management, nor has Waterhouse or any such Business Subsidiary been advised by any Governmental Authority that it is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such order, decree, agreement, memorandum of understanding, extraordinary supervisory letter, commitment letter or similar submission, or any such board resolutions.

Section 3.17. *Undisclosed Liabilities.* Except (i) as set forth in Section 3.17 of the TD Disclosure Schedule, (ii) for those liabilities or obligations that are fully reflected, accrued or reserved against on the unaudited consolidated balance sheet of Waterhouse at April 30, 2005 included in the Waterhouse Business Financial Statements, (iii) for liabilities arising out of or in connection with this Agreement, the Transaction Agreements or any of the transactions contemplated hereby or thereby, (iv) for liabilities or obligations incurred in the ordinary course of business consistent with past practice since April 30, 2005 or (v) for liabilities for which Ameritrade and its Subsidiaries would be indemnified pursuant to clause (i) of Section 8.2(a), neither Waterhouse nor any of the Business Subsidiaries has incurred any liability or obligation of any nature whatsoever (whether absolute, accrued or contingent or otherwise and whether due or to become due) that, either alone or when combined with all similar liabilities or obligations, would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Without limiting the foregoing, from and after the Closing neither Waterhouse nor any of the Business Subsidiaries shall have any liability or obligation of any nature whatsoever (whether absolute, accrued or contingent or otherwise and whether due or to become due) for or in respect of the Excluded Subsidiaries.

Section 3.18. *Environmental Liability.* Except as set forth in Section 3.18 of the TD Disclosure Schedule, there are no legal, administrative, arbitral or other proceedings, claims, actions, causes of action, private environmental investigations or remediation activities or governmental investigations of any nature seeking to impose, or that are reasonably likely to result in the imposition, on Waterhouse or any of the Business Subsidiaries of any liability or obligation arising under common law standards relating to environmental protections, human health or safety, or under any local, state or federal environmental statute, regulation, code, treaty or ordinance relating to environmental protection, pollution or exposure of any individual to Hazardous Materials (as defined below), including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (collectively, the *Environmental Laws* ), pending or, to the knowledge of TD, threatened, against Waterhouse or any of the Business Subsidiaries, which liability or obligation would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. To the knowledge of TD, there is no reasonable basis for any such proceeding, claim, action or governmental investigation that would impose any liability or obligation



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that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Except as set forth in Section 3.18 of the TD Disclosure Schedule, to the knowledge of TD, during or prior to the period of (i) the ownership by Waterhouse or any of the Business Subsidiaries of any of their respective current properties, (ii) the participation by Waterhouse or any of the Business Subsidiaries in the management of any property, or (iii) the holding by Waterhouse or any of the Business Subsidiaries of a security interest or other interest in any property, there were no releases or threatened release of hazardous, toxic, radioactive or dangerous materials or other materials regulated under Environmental Laws (collectively *Hazardous Materials* ) in, on, under or affecting any such property which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Neither Waterhouse nor any of the Business Subsidiaries is subject to any agreement, order, judgment, decree, letter or memorandum by or with any Governmental Authority or third party imposing any material liability or obligation pursuant to or under any Environmental Law that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Notwithstanding the generality of any other representations and warranties in this Agreement, the representations and warranties in this Section 3.18 shall be deemed the only representations and warranties of TD in this Agreement with respect to matters relating to Environmental Laws or to Hazardous Materials.

Section 3.19. *Transactions with Affiliates.* Immediately following the Closing, neither TD nor any of its Subsidiaries (including the Excluded Subsidiaries but excluding Waterhouse and the Business Subsidiaries) nor, to the knowledge of TD, any officer or director of TD or any of its Subsidiaries, will have any direct or indirect interest in any assets (whether tangible or intangible, including real property and Intellectual Property) used in or necessary for the conduct of the business of Waterhouse and the Business Subsidiaries as conducted by Waterhouse and the Business Subsidiaries immediately prior to the date hereof and immediately prior to the Closing, as reflected in the Waterhouse Business Financial Statements, except (i) as set forth in Section 3.19 of the TD Disclosure Schedule, (ii) as provided in this Agreement and the Transaction Agreements, (iii) by virtue of TD's ownership interest in Ameritrade and (iv) for any such interest to the extent relating to assets used by Waterhouse in the conduct of the business of the Excluded Subsidiaries. Except (i) as set forth in Section 3.19 of the TD Disclosure Schedule, (ii) for this Agreement and the Transaction Agreements and (iii) for brokerage accounts and margin loans extended in the ordinary course of business consistent with past practice, there are no contracts or other agreements or arrangements (including with respect to the provision of services or facilities), whether or not in writing (including any license, implied license or right to use, easement or like permission with respect to any assets (whether tangible or intangible, including real property and Intellectual Property)) between Waterhouse or any of the Business Subsidiaries, on the one hand, and TD or any of its Subsidiaries (other than Waterhouse and the Business Subsidiaries) or, to the knowledge of TD, any officer or director of TD or any such Subsidiary, on the other hand.

Section 3.20. *No Broker or Finders.* Except for Goldman, Sachs & Co., whose fees and expenses will be paid by TD, neither TD nor any of its Subsidiaries nor any of their respective officers or directors has employed any broker or finder or incurred any liability for any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement.

Section 3.21. *Insurance.* (a) Waterhouse and the Business Subsidiaries maintain insurance policies (or are covered by insurance policies or self-insurance programs maintained by or on their behalf by TD) that are customary in scope and amount of coverage. All of such insurance policies or self-insurance programs are in full force and effect, and neither Waterhouse nor any of the Business Subsidiaries is in default in any material respect with respect to their obligations under any of such insurance policies or self-insurance programs. All premiums or payments payable under all such insurance policies for periods prior to and ending on the date hereof have been duly paid or accrued on the Waterhouse Financial Statements.

(b) Section 3.21(b) of the TD Disclosure Schedule contains a true and correct list of all insurance policies for Waterhouse and the Business Subsidiaries (excluding, in the case of Waterhouse, any such policies relating solely to the business of the Excluded Subsidiaries) currently in force and sets forth with

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respect to each such policy: (1) lines of coverage, (2) broker/agent and insurer, (3) policy number, (4) policy period, (5) limits, (6) SIR/deductible, (7) premium (solely with respect to insurance policies not arranged by TD) and (8) material claims reported thereunder.

(c) TD has provided or made available to Ameritrade copies of the latest application for insurance, including all attachments and exposure data, for the Excess SIPC (aka) Account Protection Coverage line of coverage, to the extent applicable to Waterhouse and the Business Subsidiaries.

Section 3.22. *Accounting Controls.* (a) Waterhouse and the Business Subsidiaries have devised and maintained systems of internal accounting controls sufficient to provide reasonable assurances that (i) all transactions, receipts and expenditures are executed only in accordance with management's general or specific authorization, (ii) all transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP and to maintain proper accountability for items, (iii) access to their property and assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for items is compared with the actual levels at reasonable intervals and appropriate action is taken with respect to any differences, except with respect to (i) through (iv) for such failures as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Neither Waterhouse nor any of the Business Subsidiaries nor, to the knowledge of TD, any director, officer, employee, auditor, accountant or representative of Waterhouse or any of the Business Subsidiaries have identified or been made aware of (x) any significant deficiencies or material weaknesses in the design or operation of internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect Waterhouse's ability to record, process, summarize and report financial information or (y) any fraud, whether or not material, that involves management or other employees who have a significant role in Waterhouse's internal controls over financial reporting. Each Business Subsidiary has adopted record keeping systems that comply in all material respects with the requirements of applicable law (including, in the case of U.S. broker-dealer entities, Section 17 of the Exchange Act and the rules and regulations thereunder) and the rules of all self-regulatory organizations having jurisdiction over such Business Subsidiary, and maintains its records in substantial compliance therewith.

(b) Except as set forth in Section 3.22(b) of the TD Disclosure Schedule, since October 31, 2002, (x) none of TD Waterhouse, nor, to the knowledge of TD, any director, officer, employee, auditor, accountant or representative of TD Waterhouse, or any of the Business Subsidiaries has received or otherwise had or obtained knowledge of any complaint, allegation or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of Waterhouse or any of the Business Subsidiaries, which if true would have a material impact on the Waterhouse Financial Statements, and (y) no attorney representing Waterhouse or any of the Business Subsidiaries, whether or not employed by Waterhouse or any of the Business Subsidiaries, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by Waterhouse or any of its officers, directors, employees or agents to the Board of Directors of TD or Waterhouse or any committee thereof or to any director or officer of TD, Waterhouse or the Business Subsidiaries pursuant to Section 307 of the Sarbanes-Oxley Act.

Section 3.23. *Interest Rate Risk Management Instruments.* Immediately prior to the Closing, neither Waterhouse nor any of the Business Subsidiaries will be a party to any interest rate swaps, caps, floors and option agreements and other interest rate risk management arrangements, whether entered into for the account of Waterhouse or any of the Business Subsidiaries or for the account of a customer of Waterhouse or any of the Business Subsidiaries.

Section 3.24. *Labor and Employment Matters.* There are no collective bargaining or other labor union agreements to which Waterhouse or any of the Business Subsidiaries is a party or by which any of them is bound. To the knowledge of TD, since June 1, 2002, neither Waterhouse nor any of the Business Subsidiaries has encountered any labor union organizing activity or had any actual or threatened employee strikes, work stoppages, slowdowns or lockouts, other than any such events that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse. Except with

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respect to instances that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Waterhouse, Waterhouse and each of the Business Subsidiaries (a) is, and since June 1, 2002, has been in, compliance with all applicable laws relating to employment and employment practices, occupational safety and health standards, terms and conditions of employment and wages and hours, and (b) is not, and since June 1, 2002, has not, engaged in any unfair labor practice. During the two years preceding the date of this Agreement, Waterhouse has not received written notice of any unfair labor practice charge against Waterhouse or any of the Business Subsidiaries which charge remains pending.

## ARTICLE IV

## Representations and Warranties of Ameritrade

Ameritrade hereby represents and warrants to TD as follows:

Section 4.1. *Organization, Good Standing and Qualification.* Ameritrade is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and each of its Subsidiaries is a corporation or other entity duly organized, validly existing and (to the extent the concept of good standing is applicable to such Subsidiary) in good standing under the laws of its jurisdiction of incorporation or organization. Each of Ameritrade and each of its Subsidiaries has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as currently conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, other than in such jurisdictions where the failure to so qualify or to be in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Ameritrade. The certificate of incorporation and bylaws (or analogous governing documents, as applicable) of Ameritrade and its Subsidiaries, copies of which were previously made available to TD, are true, complete and correct as in effect on the date of this Agreement.

Section 4.2. *Capitalization; Voting Rights.* (a) The authorized capital stock of Ameritrade consists of 650,000,000 shares of Common Stock and 100,000,000 shares of preferred stock, par value \$0.01 per share ( *Ameritrade Preferred Stock* ). As of the date of this Agreement, there are 404,258,334 shares of Common Stock outstanding, no shares of Ameritrade Preferred Stock outstanding and 30,823,526 shares of Common Stock held in Ameritrade's treasury. No other shares of Common Stock or Ameritrade Preferred Stock were issued or outstanding. As of the date of this Agreement, no shares of Common Stock or Ameritrade Preferred Stock were reserved for issuance, except for (i) an aggregate of 52,705,283 shares of Common Stock reserved for issuance upon the exercise of stock options pursuant to the Ameritrade 1996 Long-Term Incentive Plan, the 1996 Directors Incentive Plan, the Ameritrade 1998 Stock Option Plan, the Ameritrade 2001 Stock Incentive Plan and the Ameritrade Executive Deferred Compensation Program (the *Ameritrade Stock Option Plans* ) and (ii) 450,000 shares of Common Stock reserved for issuance upon the exercise of stock options by Moishe Zelcer pursuant to the stock option agreement, dated December 30, 1999, entered into between Ameritrade and Moishe Zelcer (the *MZ Agreement* ). All outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and non-assessable and not subject to preemptive rights.

(b) Except as set forth in (a) above and on Section 4.2(b) of the Ameritrade Disclosure Schedule, (i) there are no options, phantom stock, stock appreciation rights, warrants, calls, rights, commitments or agreements of any character to which Ameritrade or any of its Subsidiaries or Affiliates is a party or by which any of the foregoing are bound obligating Ameritrade or any of its Subsidiaries or Affiliates to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock of Ameritrade or any of its Subsidiaries or obligating Ameritrade or any of its Subsidiaries or Affiliates to grant, extend or enter into any such option, phantom stock, stock appreciation rights, warrant, call, right, commitment or agreement, (ii) there are no outstanding contractual obligations of Ameritrade or any of its Subsidiaries or Affiliates to repurchase, redeem or otherwise acquire any shares of capital stock of Ameritrade or any of its Subsidiaries and (iii) there are no outstanding securities of any kind convertible into or exchangeable or

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exercisable for the capital stock of Ameritrade or any of its Subsidiaries. Section 4.2(b) of the Ameritrade Disclosure Schedule contains a list setting forth as of the date of this Agreement the aggregate number of shares of Common Stock subject to outstanding stock options pursuant to the Ameritrade Stock Option Plans and the MZ Agreement and the aggregate number of such options that are vested and unvested.

(c) The shares of Common Stock to be issued to TD at the Closing pursuant to the terms of this Agreement have been duly and validly authorized and when such shares of Common Stock are issued to TD in accordance with the terms of this Agreement, all of such shares will be duly authorized, validly issued, fully paid and nonassessable and will be delivered to TD free and clear of all Encumbrances (other than pursuant to the Stockholders Agreement and those placed thereon by or on behalf of TD) and will have the rights, preferences, privileges and restrictions set forth in the Ameritrade Restated Charter.

(d) No Voting Debt of Ameritrade or any of its Subsidiaries is outstanding.

Section 4.3. *Subsidiaries.* Section 4.3 of the Ameritrade Disclosure Schedule lists all of the Subsidiaries of Ameritrade. Ameritrade owns, directly or indirectly, beneficially and of record 100% of the issued and outstanding equity interests of each such Subsidiary. All of the shares of capital stock of each of the Subsidiaries of Ameritrade have been duly authorized and validly issued and are fully paid and nonassessable and are owned by Ameritrade or one of its Subsidiaries free and clear of any Encumbrance except as otherwise disclosed in Section 4.3 of the Ameritrade Disclosure Schedule. Except for the Subsidiaries of Ameritrade and except as set forth in Section 4.3 of the Ameritrade Disclosure Schedule, Ameritrade does not own, directly or indirectly, any capital stock, membership interest, partnership interest, joint venture interest or other equity interest in any other Person for its own account.

Section 4.4. *Authorization; Binding Obligations.* (a) Ameritrade has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement and each of the Transaction Agreements to which it is or will be a party, and each Subsidiary of Ameritrade that is or will be a party to any Transaction Agreement has all requisite corporate power and authority to execute, deliver and perform its obligations under each such Transaction Agreement. The execution, delivery and performance by Ameritrade of this Agreement and each of the Transaction Agreements to which it is or will be a party and, subject to obtaining the Ameritrade Required Votes (as defined in Section 4.22), the consummation of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Ameritrade, and, subject to obtaining the Ameritrade Required Votes, no other corporate actions by Ameritrade are necessary for the execution, delivery and performance by Ameritrade of this Agreement and each of the Transaction Agreements to which it is a party and the consummation by Ameritrade of the transactions contemplated hereby and thereby. The execution, delivery and performance by each Subsidiary of Ameritrade of each of the Transaction Agreements to which it is a party, and the consummation of the transactions contemplated thereby, have been duly authorized by all necessary corporate action on the part of each such Subsidiary and no other corporate actions by such Subsidiary is necessary for the execution, delivery and performance by such Subsidiary of each such Transaction Agreement and the consummation by such Subsidiary of the transactions contemplated thereby.

(b) The Board of Directors of Ameritrade, at a meeting duly called and held at which all directors were present, duly and unanimously adopted resolutions (i) approving this Agreement, each of the Transaction Agreements, the Share Purchase and the other transactions contemplated hereby and thereby, the Ameritrade Restated Charter and the Ameritrade Restated Bylaws, (ii) determining that this Agreement, the Share Purchase, the Transaction Agreements and the other transactions contemplated hereby and thereby are fair to and in the best interests of Ameritrade and its stockholders, and (iii) recommending that Ameritrade's stockholders approve the Ameritrade Stock Issuance and the Ameritrade Restated Charter and directing that such matters be submitted for consideration by Ameritrade's stockholders at the Ameritrade Stockholders Meeting.

(c) This Agreement has been duly executed and delivered by Ameritrade and (assuming due authorization, execution and delivery by TD) constitutes a valid and binding obligation of Ameritrade enforceable against Ameritrade in accordance with its terms, except as may be limited by bankruptcy,

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insolvency, reorganization, moratorium or other laws relating to or affecting creditors' rights generally and by general equity principles.

(d) Ameritrade has taken all necessary corporate action so that the restrictions on business combinations contained in Section 203 of the General Corporation Law of the State of Delaware (the *DGCL*) do not and will not apply to the execution, delivery and performance of this Agreement or any of the Transaction Agreements, or the consummation of the Share Purchase or any of the other transactions contemplated hereby and thereby. Without limiting the foregoing, the actions by the Board of Directors of Ameritrade referred to in Section 4.4(b) above constitute approval, for purposes of Section 203(a)(1) of the *DGCL*, of (i) this Agreement and the Transaction Agreements and (ii) the Share Purchase and the other transactions contemplated by this Agreement and the Transaction Agreements (including the voting agreements set forth in the Voting Agreement and the issuance of the Common Stock to TD constituting the Exchange Consideration). The consummation of the Share Purchase (including the Ameritrade Stock Issuance) constitutes a Qualified M&A Transaction as such term is defined in that stockholders agreement, dated as of April 6, 2002, by and among Ameritrade and the stockholders listed on the schedules thereto (the *Existing Stockholders Agreement*).

(e) Each of the Transaction Agreements to be entered into on the date hereof has been, and each of the Transaction Agreements to be entered into after the date hereof, upon such entry will be, duly executed and delivered by Ameritrade (and/or the applicable Subsidiary or Subsidiaries of Ameritrade party thereto) and (assuming due authorization, execution and delivery thereof by the other parties thereto) constitutes a valid and binding obligation of Ameritrade (and/or the applicable Subsidiary or Subsidiaries of Ameritrade party thereto) enforceable against it in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to creditors' rights generally and by general equitable principles.

Section 4.5. *No Conflict.* (a) Except as set forth in Section 4.5(a) of the Ameritrade Disclosure Schedule, the execution and delivery by Ameritrade of this Agreement, the execution and delivery by Ameritrade (and/or the applicable Subsidiary of Ameritrade party thereto) of each of the Transaction Agreements to which it is or will be a party do not, and the consummation by Ameritrade and/or each such Subsidiary of the transactions contemplated hereby and thereby will not result in any Violation pursuant to (i) any provision of the certificate of incorporation or bylaws or comparable organizational documents of Ameritrade or any of its Subsidiaries, or (ii) except as to which requisite waivers or consents have been obtained, and except for the consents and approvals required under the agreements and instruments listed in Section 4.5(a) of the Ameritrade Disclosure Schedule, any loan or credit agreement, note, mortgage, indenture, lease or other agreement, obligation or instrument to which Ameritrade or any of its Subsidiaries is a party or by which any of their respective properties or assets may be bound, or (iii) any law, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Ameritrade or any of its Subsidiaries or their respective properties or assets, assuming the consents, approvals, authorizations or permits and filings or notifications set forth in Section 4.5(a) of the Ameritrade Disclosure Schedule and paragraph (b) below are duly and timely obtained or made; other than a Violation, in the case of clauses (ii) and (iii), which would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Section 4.5(a) of the Ameritrade Disclosure Schedule lists all loans or credit agreements, notes, mortgages, indentures, leases or other agreements, obligations or instruments (other than the contracts and other agreements set forth in Section 4.9 of the Ameritrade Disclosure Schedule) to which Ameritrade or any of its Subsidiaries is a party, or by which any of their respective properties or assets may be bound, which require the consent, waiver, or approval of a party thereto (other than Ameritrade or any of its Subsidiaries) in connection with the execution and delivery by Ameritrade of this Agreement or the Transaction Agreements and the consummation by it of the transactions contemplated hereby and thereby (including the Tender Offer), if the failure to obtain such consent, waiver or approval would be material to Ameritrade.

(b) Except as set forth in Section 4.5(b) of the Ameritrade Disclosure Schedule, no consent, approval, order or authorization of, notice to, or registration, declaration or filing with any Governmental

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Authority or any Third Party Approval is required by or with respect to Ameritrade or any of its Subsidiaries in connection with the execution and delivery by Ameritrade of this Agreement or any of the Transaction Agreements or the consummation by Ameritrade of the transactions contemplated hereby and thereby (including the Tender Offer), except for (i) the filing by Ameritrade with the SEC of the SEC Proxy Statement and the filing by Ameritrade with the SEC of a Schedule 14D-9 with respect to the Tender Offer, (ii) notification by Ameritrade to NASDAQ of the proposed issuance of the Common Stock to TD constituting the Exchange Consideration, (iii) notices under the HSR Act and the expiration of applicable waiting periods thereunder, (iv) an application for an Advance Ruling Certificate or no-action letter to the Commissioner of Competition (Canada) and a pre-merger notification pursuant to the Competition Act (Canada) and the expiration of applicable waiting periods thereunder, (v) approval by the Minister of Finance (Canada) and the Superintendent of Financial Institutions (Canada) under the Bank Act (Canada) of the transactions contemplated by this Agreement and the use by Ameritrade of the TD name as contemplated by the Trademark License Agreement, (vi) notices with and approvals from the NASD, NYSE and the Canadian securities regulatory authorities and the other industry self-regulatory agencies listed in Section 4.5(b) of the Ameritrade Disclosure Schedule, (vii) the filing of the Ameritrade Restated Charter with the Secretary of State of the State of Delaware by Ameritrade and (viii) such other approvals, consents and orders of, and filings, notices and registrations with, Governmental Authorities and Third Party Approvals the failure of which to be made or obtained would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Neither Ameritrade nor any of its Affiliates holds control of (as such term is defined in 12 U.S.C. § 1841(a)(2) or any successor provision) any insured depository institution (as such term is defined in 12 U.S.C. § 1813(c)(2) or any successor provision).

Section 4.6. *Financial Statements.* The financial statements of Ameritrade (including any related notes and schedules thereto) included in the Ameritrade SEC Documents complied as to form, as of their respective dates of filing with the SEC (or, if amended or superseded by a subsequent filing prior to the date hereof, as of the date of such subsequent filing), in all material respects with all applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP applied on a consistent basis during the periods involved (except (i) as may be indicated in the notes thereto, (ii) as may be indicated in Section 4.6 of the Ameritrade Disclosure Schedule, or (iii) in the case of unaudited statements, as permitted by Form 10-Q, 8-K or any successor form under the Exchange Act) and fairly present in all material respects the consolidated financial condition of Ameritrade and its consolidated Subsidiaries as of the dates thereof and the consolidated results of operations, changes in stockholders' equity and cash flows of such companies for the periods presented.

Section 4.7. *SEC Documents.* Ameritrade has made available to TD a true and complete copy of each report, schedule, registration statement and definitive proxy statement filed by Ameritrade with the SEC (other than reports filed pursuant to Section 13(g) of the Exchange Act), since June 1, 2002 (as such documents have since the time of their filing been amended, the *Ameritrade SEC Documents*), which are all the documents (other than preliminary material and reports required pursuant to Section 13(g) of the Exchange Act) that Ameritrade was required to file with the SEC since such date. As of their respective dates of filing with the SEC (except to the extent amended by an amendment to such Ameritrade SEC Document filed with the SEC prior to the date of this Agreement and except as set forth in Section 4.7 of the Ameritrade Disclosure Schedule), the Ameritrade SEC Documents (a) complied in all material respects with the applicable requirements of the Securities Act, the Exchange Act and the Sarbanes-Oxley Act, and (b) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Ameritrade has made available to TD true and complete copies of any comment letters received from the SEC with respect to any of the Ameritrade SEC Documents. Except as set forth in Section 4.7 of the Ameritrade Disclosure Schedule, to the knowledge of Ameritrade, there are no material unresolved comments from the SEC, whether oral or written, with respect to any of the Ameritrade SEC Documents. No enforcement action has been initiated, and no formal or, or to the knowledge of Ameritrade, informal investigation commenced, against



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Ameritrade by the SEC relating to disclosures contained in any of the Ameritrade SEC Documents. None of Ameritrade's Subsidiaries is required to file periodic reports with the SEC pursuant to Section 13 or 15(d) of the Exchange Act.

Section 4.8. *Information Supplied.* None of the information supplied or to be supplied by Ameritrade expressly for inclusion in the SEC Proxy Statement will, at the date of mailing to stockholders of Ameritrade and at the time of the Ameritrade Stockholders Meeting to be held in connection with obtaining the Ameritrade Required Votes (as defined in Section 4.22) and any Additional Votes (as defined in Section 5.3(b)), (i) contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading or (ii) at the time and in the light of the circumstances under which it is made, be false or misleading with respect to any material fact, or omit to state any material fact necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of a proxy for the Ameritrade Stockholders Meeting which has become false or misleading. The SEC Proxy Statement (except for such portions thereof furnished in writing to Ameritrade by TD or Waterhouse expressly for inclusion therein, as to which no warranty is made) will comply as to form in all material respects with the requirements of the Exchange Act.

Section 4.9. *Certain Agreements.* (a) Section 4.9(a) of the Ameritrade Disclosure Schedule sets forth a listing, as of the date hereof, of all of the following contracts and other agreements, oral or written, to which Ameritrade or any of its Subsidiaries is a party or by which Ameritrade or any of its Subsidiaries or any of their respective assets or properties is bound:

(i) consulting agreements not terminable on notice of three months or less and involving the payment of more than \$50,000 per annum;

(ii) agreements with any employee at the level of senior vice president or above of Ameritrade or any of its Subsidiaries (A) providing any term of employment, (B) the benefits of which are contingent, or the terms of which are materially altered, upon the occurrence of a transaction involving Ameritrade of the nature contemplated by this Agreement (either alone or in connection with a termination of employment), or (C) providing severance benefits;

(iii) contracts and other agreements for the sale or lease (other than where Ameritrade or any of its Subsidiaries is a lessor) of any assets or properties (other than in the ordinary course of business) or for the grant to any Person (other than to Ameritrade or any of its Subsidiaries) of any preferential rights to purchase any assets or properties;

(iv) contracts and other agreements relating to the acquisition by Ameritrade or any of its Subsidiaries of any operating business or entity or any interest therein (other than acquisitions of securities for the account of or for sale to customers in the ordinary course of business);

(v) material contracts and other agreements evidencing outstanding loans to, or guaranteeing any loans on behalf of, any employee or consultant of Ameritrade or any of its Subsidiaries (other than routine expense advances consistent with past practice and other than margin loans extended in the ordinary course of business consistent with past practice);

(vi) contracts or other agreements under which Ameritrade or any of its Subsidiaries agrees to indemnify any party, other than in the ordinary course of business consistent with past practice, or to share a Tax liability of any party;

(vii) (A) contracts and other agreements containing covenants restricting Ameritrade or any of its Subsidiaries from competing in any line of business or with any Person in any geographic area or requiring Ameritrade or any of its Subsidiaries to engage in any line of business or binding Ameritrade or any of its Subsidiaries to any

exclusive business arrangements or licenses, or which require the referral of any business or business opportunity or require Ameritrade or any of its Subsidiaries to make available business opportunities or products or services on a priority, equal or

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exclusive basis (including any preferred provider type contracts or other agreements for products and services offered by Ameritrade and its Subsidiaries to their customers) and (B) any agreements of such types that could apply to TD or any of its Affiliates after the Closing by reason of the Share Purchase and the consummation of the other transactions contemplated hereby and by the Transaction Agreements;

(viii) any material contracts or other agreements under which Ameritrade or any of its Subsidiaries have outsourced, or have agreed to outsource, any of their products, services or employees;

(ix) any material Intellectual Property licenses to or from any third parties, and any joint development agreements;

(x) any contracts or agreements governing joint ventures between Ameritrade or any of its Subsidiaries and a third party;

(xi) contracts or other agreements (other than contracts or other agreements in the ordinary course of business) relating to the borrowing of money by Ameritrade or any of its Subsidiaries, or the direct or indirect guaranty by Ameritrade or any of its Subsidiaries of any obligation for, or an agreement by Ameritrade or any of its Subsidiaries to service, the repayment of borrowed money, or any other contingent obligations of Ameritrade or any of its Subsidiaries in respect of indebtedness of any other Person; and

(xii) any other material contract or other agreement whether or not made in the ordinary course of business, including any contract required to be filed by Ameritrade pursuant to Item 601(b)(10) of Regulation S-K of the SEC.

(b) There have been delivered or made available to TD true and complete copies of all of the contracts and other agreements set forth in Section 4.9(a) of the Ameritrade Disclosure Schedule. Except as set forth in Section 4.9(b) of the Ameritrade Disclosure Schedule, each such contract and other agreement is in full force and effect and constitutes a legal, valid, and binding obligation of Ameritrade or its Subsidiaries, as the case may be, and to the knowledge of Ameritrade, each other party thereto, enforceable in accordance with its terms. Neither Ameritrade nor any Subsidiary of Ameritrade has received any notice, whether written or oral, of termination or intention to terminate from any other party to such contract or agreement. None of Ameritrade or any of its Subsidiaries or (to the knowledge of Ameritrade) any other party to any such contract or agreement is in violation or breach of or default under any such contract or agreement (or with notice or lapse of time or both, would be in violation or breach of or default under any such contract or agreement), which violation, breach, or default has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade.

Section 4.10. *Changes.* Except as set forth on Section 4.10 of the Ameritrade Disclosure Schedule and except as disclosed in the Ameritrade SEC Documents filed by Ameritrade with the SEC prior to the date of this Agreement, since September 24, 2004, there has not been any change, or any event involving a prospective change, in the business, financial condition or results of operations of Ameritrade or any of its Subsidiaries which has had, or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Except as set forth in Section 4.10 of the Ameritrade Disclosure Schedule and except as disclosed in the Ameritrade SEC Documents filed by Ameritrade with the SEC prior to the date of this Agreement, since March 25, 2005, Ameritrade and each of its Subsidiaries have conducted their respective businesses in the ordinary course consistent with their past practices and neither Ameritrade nor any of its Subsidiaries has taken any action or entered into any transaction, and no event has occurred, that would have required TD's consent pursuant to Section 5.2 of this Agreement if such action had been taken, transaction entered into or event had occurred, in each case, after the date of this Agreement, nor has Ameritrade or any of its Subsidiaries entered into any agreement, plan or arrangement to do any of the foregoing.

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Section 4.11. *Title to Properties and Assets; Liens, Condition, Etc.* (a) Except as set forth in Section 4.11 of the Ameritrade Disclosure Schedule, Ameritrade or one of its Subsidiaries has good and marketable title to all the properties and assets reflected in the latest audited balance sheet included in the Ameritrade SEC Documents as being owned by Ameritrade or one of its Subsidiaries or acquired after the date thereof which are material to Ameritrade's business on a consolidated basis (except properties sold or otherwise disposed of since the date thereof in the ordinary course of business), free and clear of all Encumbrances except (i) statutory Encumbrances for Taxes and other payments not yet due or which are being contested in good faith and for which adequate reserves have been provided, (ii) liens of tradesmen arising or incurred in the ordinary course of business, (iii) zoning, building, occupancy and similar governmental restrictions and (iv) covenants, easements, rights-of-way and other matters shown on public records, and such imperfections or irregularities of title, claims or Encumbrances as do not materially affect the use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties.

(b) Neither Ameritrade nor any of its Subsidiaries owns any real property. Section 4.11(b) of the Ameritrade Disclosure Schedule sets forth a list of all material real property currently leased, subleased or licensed by or from Ameritrade or any of its Subsidiaries or otherwise used or occupied by Ameritrade or any of its Subsidiaries (the *Ameritrade Facilities*). Ameritrade has made available to TD true, correct and complete copies of all leases, lease guaranties and subleases relating to the Ameritrade Facilities, including all amendments, terminations and modifications thereof (the *Ameritrade Leases*). Each such Ameritrade Lease is in full force and effect and constitutes a legal, valid and binding obligation of Ameritrade or any of its Subsidiaries, as the case may be, and to the knowledge of Ameritrade, each other party thereto, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to creditor's rights generally and by general equitable principles. None of Ameritrade or any of its Subsidiaries or (to the knowledge of Ameritrade) any other party to such Ameritrade Lease, is in material violation or breach of or default under (or with notice or lapse of time or both, would be in violation or breach of or default under) any such Ameritrade Lease.

Section 4.12. *Intellectual Property.* (a) Ameritrade and its Subsidiaries (i) own or have the valid right to use all material Intellectual Property necessary or used in their businesses as currently conducted, and as currently planned to be conducted, in the case of owned Intellectual Property, free and clear of all Encumbrances (other than pursuant to licenses relating thereto), (ii) have taken reasonable actions to protect and maintain the validity and ownership of such Intellectual Property, and (iii) except as set forth in Section 4.12(a)(iii) of the Ameritrade Disclosure Schedule, have not granted to any third party, by license or otherwise, any material right or interest in such Intellectual Property.

(b) Section 4.12(b) of the Ameritrade Disclosure Schedule sets forth a list of all (i) patents, patent applications, registered trademarks or service marks and registered copyrights and domain names, and applications or licenses for registration thereof, that are owned by Ameritrade or its Subsidiaries and all such registrations are, to the knowledge of Ameritrade, valid and subsisting, and (ii) material software and technology owned by Ameritrade or its Subsidiaries.

(c) Ameritrade has made all reasonable efforts to secure the valid right to use the Ameritrade trademark, service mark, trade dress, trade name and logo in all jurisdictions in which Ameritrade currently conducts its business or plans to conduct its business. Except as set forth in Section 4.12(c) of the Ameritrade Disclosure Schedule, to the knowledge of Ameritrade, Ameritrade's use of the Ameritrade trademark, service mark, trade dress, trade name and logo has not infringed upon, or otherwise come into conflict with, any Intellectual Property of any other Person. Except as set forth in Section 4.12(c) of the Ameritrade Disclosure Schedule, Ameritrade has not licensed or granted any third party any rights to the Ameritrade trademark, service mark, trade name or logo other than time-limited rights in the ordinary course of business, the use of which rights is always pursuant to a written license agreement and is strictly monitored and controlled.

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(d) To the knowledge of Ameritrade, neither Ameritrade nor any of its Subsidiaries, nor the operation of their businesses, has materially infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property or other proprietary information of any other Person or constituted unfair competition or trade practices of the laws of any jurisdiction. During the two years preceding the date of this Agreement, except as set forth in Section 4.12(d) of the Ameritrade Disclosure Schedule, (i) neither Ameritrade nor any of its Subsidiaries has received any written material charge, complaint, claim, demand or notice alleging any such infringement, misappropriation or other conflict (including any claim that Ameritrade or any Subsidiary of Ameritrade must license or refrain from using any Intellectual Property or other proprietary information of any other Person), and (ii) neither Ameritrade nor any of its Subsidiaries is party to or the subject of any pending or, to the knowledge of Ameritrade, threatened, action before or by any Governmental Authority with respect to any such material infringement, misappropriation or conflict. Except as set forth in Section 4.12(d) of the Ameritrade Disclosure Schedule, to the knowledge of Ameritrade, no other Person has infringed upon, misappropriated or otherwise come into conflict with any Intellectual Property owned by, licensed to or otherwise used by Ameritrade or any of its Subsidiaries, except for any such infringement, misappropriation or other conflict that, individually or in the aggregate, has not had and is not reasonably expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade.

(e) Each of Ameritrade and its Subsidiaries has taken all reasonable and necessary steps to protect their material Intellectual Property and rights thereunder, and, to the knowledge of Ameritrade, no such rights to material Intellectual Property have been lost or are in jeopardy of being lost as a result of any act or omission by Ameritrade or any of its Subsidiaries.

(f) To the knowledge of Ameritrade, except as set forth in Section 4.12(f) of the Ameritrade Disclosure Schedule, no material software used in the business of Ameritrade or any of its Subsidiaries as currently conducted is, includes or is otherwise derivative of any software (i) for which the source code is in the public domain, or (ii) that includes open source code or is licensed pursuant to an open source license or under a similar licensing or distribution model.

Section 4.13. *Compliance with Laws and Other Instruments; Consents and Approvals.* (a) Ameritrade and its Subsidiaries hold all permits, licenses, variances, exemptions, authorizations, registrations, consents, certificates, orders and approvals of all Governmental Authorities which are material to the operation of the businesses of Ameritrade and its Subsidiaries, taken as a whole (the *Ameritrade Permits* ). Ameritrade and its Subsidiaries are in compliance in all material respects with the terms of the Ameritrade Permits. The businesses of Ameritrade and its Subsidiaries are not being conducted in violation of any law, ordinance or regulation of any Governmental Authority, except for possible violations which do not, and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Except as set forth in Section 4.13(a) of the Ameritrade Disclosure Schedule and except for routine examinations by federal or state Governmental Authorities charged with the supervision or regulation of securities brokers or investment advisors, to the knowledge of Ameritrade, (i) no investigation by any Governmental Authority with respect to Ameritrade or any of its Subsidiaries is pending or threatened, other than, in each case, those the outcome of which would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade, and (ii) no proceedings by any such Governmental Authority are pending or threatened which seek to revoke or materially limit any of the Ameritrade Permits. Except as set forth in Section 4.13(a) of the Ameritrade Disclosure Schedule, there is no material unresolved criticism, violation or exception by any Governmental Authority with respect to any report, registration or other statement filed by, or relating to any examinations by any such Governmental Authority of, Ameritrade or any of its Subsidiaries.

(b) Ameritrade and its Subsidiaries have timely filed all registrations, declarations, reports, notices, forms and other filings required to be filed with the SEC, NASD, NASDAQ, NYSE, any clearing agency or any other Governmental Authority, and all amendments or supplements to any of the foregoing (the *Ameritrade Filings* ), except where any failure to file would not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. The Ameritrade Filings are in

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full force and effect and were prepared in all material respects in accordance with applicable law, and all material fees and assessments due and payable in connection therewith have been paid.

(c) Ameritrade and its Subsidiaries and each of their respective officers and employees who are required to be registered, licensed or qualified as (x) a broker-dealer or (y) a registered principal, registered representative, investment adviser representative, futures commission merchant, insurance agent or salesperson with the SEC (or in equivalent capacities with the securities or insurance commission of any other Governmental Authority) are duly registered as such and such registrations are in full force and effect, or are in the process of being registered as such within the time periods required by applicable law, except, in the case of clause (y), for such failures to be so registered as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Ameritrade and its Subsidiaries and each of their respective officers and employees are in compliance with all applicable federal, state and foreign laws requiring any such registration, licensing or qualification, have filed all periodic reports required to be filed with respect thereto (and all such reports are accurate and complete in all material respects), and are not subject to any material liability or disability by reason of the failure to be so registered, licensed or qualified, except, in the case of such registrations, licensing or qualification, reports, liabilities or disabilities relating to the registrations described in clause (y) of the preceding sentence, for such failures to be so registered, licensed or qualified, failures with respect to such reports and such liabilities or disabilities as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade.

(d) Ameritrade has delivered or made available to TD a true and complete copy of currently effective Forms ADV and BD as filed with the SEC by each applicable Subsidiary of Ameritrade, all state and other federal registration forms, all reports and all material correspondence filed by Ameritrade and each applicable Subsidiary of Ameritrade with any Governmental Authority under the Exchange Act, the Investment Company Act, the Advisers Act and under similar state statutes within the last three years. Ameritrade shall deliver to TD true and complete copies of any such forms and reports as are filed by Ameritrade and each applicable Subsidiary of Ameritrade from and after the date hereof until the Closing. The information contained in such forms and reports was (or will be, in the case of any forms and reports filed after the date hereof) complete and accurate in all material respects as of the time of filing thereof.

(e) Except as disclosed on Forms ADV or BD filed prior to the date of this Agreement, none of Ameritrade, any of its Subsidiaries or any of their directors, officers, employees, associated persons (as defined in the Exchange Act) or affiliated persons (as defined in the Investment Company Act) has been the subject of any disciplinary proceedings or orders of any Governmental Authority arising under applicable laws which would be required to be disclosed on Forms ADV or BD. No such disciplinary proceeding or order is pending or, to the knowledge of Ameritrade, threatened. Except as disclosed on such Forms ADV or BD filed prior to the date of this Agreement, none of Ameritrade, any of its Subsidiaries or any of their respective directors, officers, employees, associated persons or affiliated persons, has been permanently enjoined by the order of any Governmental Authority from engaging or continuing any conduct or practice in connection with any activity or in connection with the purchase or sale of any security. Except as disclosed on such Forms ADV or BD filed prior to the date of this Agreement, none of Ameritrade, any of its Subsidiaries or any of their respective directors, officers, employees, associated persons or affiliated persons is or has been ineligible to serve as an investment adviser under the Advisers Act (including pursuant to Section 203(e) or (f) thereof) or as a broker-dealer or an associated person of a broker-dealer under Section 15(b) of the Exchange Act (including being subject to any statutory disqualification as defined in Section 3(a)(39) of the Exchange Act), or ineligible to serve in, or subject to any disqualification which would be the basis for any limitation on serving in, any of the capacities specified in Section 9(a) or 9(b) of the Investment Company Act or any substantially equivalent foreign expulsion, suspension, or disqualification.

(f) Ameritrade and its Subsidiaries have at all times since December 31, 2001 or their respective dates of formation, whichever is later, rendered investment advisory services to investment advisory clients with whom such entity is or was a party to an investment advisory agreement or similar arrangement in material compliance with all applicable requirements as to portfolio composition and portfolio management

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including, but not limited to, the terms of such investment advisory agreements, written instructions from such investment advisory clients, prospectuses or other offering materials, board of directors or trustee directives and applicable law. Neither Ameritrade nor any of its Subsidiaries is, or is required to register as, an investment company within the meaning of the Investment Company Act.

(g) Section 4.13(g) of the Ameritrade Disclosure Schedule sets forth a complete list of all securities exchanges, commodities exchanges, boards of trade, clearing organizations, trade associations and similar organizations in which Ameritrade or any of its Subsidiaries holds membership or has been granted trading privileges.

(h) Section 4.13(h) of the Ameritrade Disclosure Schedule sets forth with respect to Ameritrade and its Subsidiaries a complete list of all (i) broker-dealer licenses or registrations and (ii) all licenses and registrations as an investment adviser under the Advisers Act or any similar state laws. Except as set forth on Section 4.13(h) of the Ameritrade Disclosure Schedule, neither Ameritrade nor any of its Subsidiaries is, or is required to be, registered as a futures commission merchant, commodities trading adviser, commodity pool operator or introducing broker under the Commodities Futures Trading Act or any similar state laws.

Section 4.14. *Litigation.* Except as set forth in Section 4.14 of the Ameritrade Disclosure Schedule, there is no Litigation pending, or to Ameritrade's knowledge, currently threatened against Ameritrade or any of its Subsidiaries which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Neither Ameritrade nor any of its Subsidiaries is subject to any injunction, decree, settlement or other similar equitable relief or judicial judgment or decision which materially affects the conduct of their business or operations or that of any of their Affiliates (including any Person who becomes an Affiliate as a result of the transactions contemplated by this Agreement).

Section 4.15. *Tax Matters.* Except as set forth in Section 4.15 of the Ameritrade Disclosure Schedule, (a) (i) all material Returns that are required to be filed with any Taxing Authority on or before the Closing Date with respect to any Pre-Closing Tax Period by, or with respect to, Ameritrade or any of its Subsidiaries have been, or will be, timely filed on or before the Closing Date; (ii) the Returns that have been or will be filed are true, correct and complete in all material respects; (iii) Ameritrade and its Subsidiaries have timely paid or will timely pay all Taxes shown as due and payable on such Returns; (iv) the charges, accruals or reserves reflected on the financial statements contained in the Ameritrade SEC Documents are adequate to cover all unpaid material Tax liabilities of Ameritrade and its Subsidiaries accruing through the date of such financial statements and Ameritrade and its Subsidiaries have not incurred any material Tax since the date of such financial statements other than in the ordinary course of business; and (v) there is no action, suit, proceeding, investigation, audit or claim now proposed or pending against or with respect to Ameritrade or its Subsidiaries in respect of any material Tax.

(b) All material Taxes which Ameritrade and its Subsidiaries are (or were) required by law to withhold or collect in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party have been duly withheld or collected, and any such Taxes have been timely paid to the appropriate Taxing Authority to the extent due and payable.

(c) None of Ameritrade or any of its Subsidiaries (i) has entered into an agreement or waiver or been requested to enter into an agreement or waiver extending any statute of limitations relating to the assessment, payment or collection of material Taxes or is contesting a material Tax liability before a court, tribunal or agency, (ii) has been or will be as of the Closing Date a United States real property holding corporation within the meaning of Section 897 of the Code, (iii) is a party to any Tax sharing, allocation, indemnification or similar agreement, nor owes any amount under any such agreement, (iv) has constituted either a distributing corporation or a controlled corporation in a distribution of stock intended to qualify for tax-free treatment under Section 355 of the Code, or (v) has engaged in a transaction that is a reportable transaction within the meaning of Treasury Regulation Section 1.6011-4(b)(1) or that is the same as or substantially similar to one of the types of transactions that the Internal Revenue Service has determined to be a tax avoidance transaction and identified by notice,

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regulation, or other form of published guidance as a listed transaction, as set forth in Treasury Regulations Section 1.6011-4(b)(2) which is not fully disclosed on a Return.

Section 4.16. *Benefit Plans.* (a) Section 4.16(a) of the Ameritrade Disclosure Schedule contains a true and complete list of the material Benefit Plans that are sponsored or are being maintained or contributed to, or required to be contributed to, by Ameritrade or any of its Subsidiaries or under which Ameritrade or any of its Subsidiaries has any present or future liability (the *Ameritrade Benefit Plans* ). No Ameritrade Benefit Plan is a multiemployer plan or is maintained pursuant to a collective bargaining agreement, and neither Ameritrade nor any of its Subsidiaries has any liability under any multiemployer plan that remains unsatisfied. No Ameritrade Benefit Plan is a multiple employer plan as defined in ERISA or the Code. No Ameritrade Benefit Plan is an employee pension benefit plan within the meaning of Section 3(2) of ERISA which is subject to Title IV of ERISA or Section 412 of the Code.

(b) With respect to each material Ameritrade Benefit Plan, Ameritrade has delivered or made available to TD a current, accurate and complete copy of each material document embodying such Ameritrade Benefit Plan (or, to the extent no such written document exists, an accurate description) and, to the extent applicable, (i) any related trust agreement or other funding instrument; (ii) the most recent determination letter; (iii) any summary plan description and other written communications from Ameritrade or any of its Subsidiaries to any of their respective employees concerning the extent of the benefits provided under any Ameritrade Benefit Plan; and (iv) for the two most recent years (A) the Form 5500 and attached schedules or other annual report, return, securities registration statement or other filing, if any, required to be filed with any Governmental Authority; (B) audited financial statements; (C) actuarial valuation reports; and (D) all material correspondence to or from any Governmental Authority relating to any Ameritrade Benefit Plan and with respect to which Ameritrade has or may have any material liability.

(c) Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade, and except as set forth in Section 4.16(c) of the Ameritrade Disclosure Schedule, (i) each Ameritrade Benefit Plan has been established and administered in accordance with its terms, and in compliance with the applicable provisions of ERISA, the Code and other applicable laws, rules and regulations; (ii) with respect to any Ameritrade Benefit Plan, no audits, actions, suits or claims (other than routine claims for benefits in the ordinary course) are pending or threatened, and no facts or circumstances exist which could give rise to any such audits, actions, suits or claims; (iii) neither Ameritrade nor any other party has engaged in a prohibited transaction which could subject Ameritrade or any of its Subsidiaries to any taxes, penalties or other liabilities under Code section 4975 or ERISA sections 409 or 502(i); (iv) all contributions and other payments required by and due under the terms of each Ameritrade Benefit Plan have been made; (v) each Ameritrade Benefit Plan which is intended to be qualified within the meaning of Code Section 401(a) has received a favorable determination letter as to its qualification and nothing has occurred, whether by action or failure to act, which would cause the loss of such qualification; (vi) no audits, proceedings or administrative actions have been taken by a Governmental Authority within the past two years with respect to any Ameritrade Benefit Plan; and (vii) neither Ameritrade nor any of its Subsidiaries are subject to any material penalty, tax, excise tax, fine or sanction with respect to any Ameritrade Benefit Plan.

(d) Except as set forth on Section 4.16(d) of the Ameritrade Disclosure Schedule, as of the date hereof, neither Ameritrade nor any of its ERISA Affiliates has any plan or commitment to establish any new material Ameritrade Benefit Plan, to modify any material Ameritrade Benefit Plan (except to the extent required by applicable law or to conform any such Ameritrade Benefit Plan to the requirements of any applicable law), or to adopt or enter into any material Ameritrade Benefit Plan. No Ameritrade Benefit Plan is a funded welfare plan within the meaning of Section 419 of the Code. Except as set forth on Section 4.16(d) of the Ameritrade Disclosure Schedule, as of the date hereof, no Ameritrade Benefit Plan provides health benefits that are not fully insured through an insurance contract.

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(e) No Ameritrade Benefit Plan provides, or reflects or represents any liability to provide, post-termination or retiree welfare benefit coverage to any Ameritrade employee, contractor or director for any reason, except as may be required by applicable law.

(f) Ameritrade has made available to TD, a true, correct and complete list, as of the date hereof, of the position, salary and date of hire (without name) of each employee, consultant and director of Ameritrade and its Subsidiaries as well as aggregate bonus goals by employee grouping for the current fiscal year.

(g) With respect to each Ameritrade International Benefit Plan, and the books and records thereof, (i) such plan is in material compliance with all applicable laws of each applicable jurisdiction; (ii) all material liabilities with respect to such plan are set forth on the Ameritrade financial statements or in the notes thereto in accordance with GAAP; and (iii) no such plan is or within the last two calendar years has been the subject of, or has received notice that it is the subject of, an examination by a government agency or a participant in a government sponsored amnesty, voluntary compliance or similar program that has had, or would reasonably be expected to have, a Material Adverse Effect on Ameritrade. For purposes of this Agreement, *Ameritrade International Benefit Plan* means each material Ameritrade Benefit Plan that, within six years prior to the Closing Date, has been adopted or maintained by Ameritrade or any of its ERISA Affiliates, whether formally or informally, and with respect to which the Ameritrade or any of its Subsidiaries will or may have any liability, for the benefit of current or former employees, consultants or directors who perform services outside the United States. The present value of the accrued benefit liabilities (whether or not vested) attributable to employees and former employees of Ameritrade or any of its Subsidiaries or for which Ameritrade or any of its Subsidiaries is or may be liable under each Ameritrade International Benefit Plan required to be funded under applicable law that provides pension, retirement, early retirement, profit sharing, deferred compensation or other similar benefits but excluding welfare benefits, determined as of September 24, 2004 did not exceed, in any material respect, the current value of the assets of such Ameritrade International Benefit Plan allocable to such benefit liabilities. Section 4.16(g) of the Ameritrade Disclosure Schedule identifies each Ameritrade International Benefit Plan that is not required to be funded under applicable law and the present value of accrued benefits liabilities as of September 24, 2004 that are not accrued or reflected in the Ameritrade financial statements or offset by insurance.

(h) Section 4.16(h) of the Ameritrade Disclosure Schedule sets forth a true, correct and complete list of all severance agreements and arrangements to which the Ameritrade or any of its Subsidiaries is a party or by which any of their assets or properties are bound.

(i) Except as set forth in Section 4.16(i) of the Ameritrade Disclosure Schedule, no Ameritrade Benefit Plan exists which provides for an increase in benefits on or after the Closing Date or could result in the payment to any current or former employee, consultant or director of Ameritrade or any of its Subsidiaries of any money or other property or rights or accelerate or provide any other rights or benefits (including forgiveness of indebtedness) to any such current or former employee, consultant or director as a result of the transactions contemplated by this Agreement. Except as set forth in Section 4.16(i) of the Ameritrade Disclosure Schedule, there is no contract, plan or arrangement (written or otherwise) covering any current or former employee, director or consultant of Ameritrade or any of its Subsidiaries that, individually or collectively, could give rise to the payment of any amount that would not be deductible pursuant to the terms of Section 280G of the Code or would be subject to excise tax under Section 4999 of the Code.

(j) Ameritrade has properly accrued and reflected in its financial statements the liability associated with the severance arrangement entered into between Ameritrade, or any of its Subsidiaries, and the individual listed in Section 4.16(j) of the Ameritrade Disclosure Schedule.

Section 4.17. *Agreements with Regulators.* Except as set forth in Section 4.17 of the Ameritrade Disclosure Schedule, neither Ameritrade nor any of its Subsidiaries is a party to any written agreement or memorandum of understanding with, or a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or is a recipient of any extraordinary supervisory letter from, or has

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adopted any board resolutions at the request of, any Governmental Authority which restricts materially the conduct by Ameritrade and its Subsidiaries of their businesses, or in any manner relates to their capital adequacy, credit policies or management, nor has Ameritrade or any such Subsidiary been advised by any Governmental Authority that it is contemplating issuing or requesting (or is considering the appropriateness of issuing or requesting) any such order, decree, agreement, memorandum of understanding, extraordinary supervisory letter, commitment letter or similar submission, or any such board resolutions.

Section 4.18. *Undisclosed Liabilities.* Except (i) as set forth in Section 4.18 of the Ameritrade Disclosure Schedule and except for those liabilities or obligations that are fully reflected, accrued or reserved against on the audited consolidated balance sheet of Ameritrade included in its Form 10-K for the fiscal year ended September 24, 2004, (ii) for liabilities arising out of or in connection with this Agreement, the Transaction Agreements or any of the transactions contemplated hereby or thereby, (iii) for liabilities or obligations incurred in the ordinary course of business consistent with past practice since September 24, 2004, or (iv) as disclosed in the Ameritrade SEC Documents filed by Ameritrade with the SEC following the filing of the Ameritrade Form 10-K for the fiscal year ended September 24, 2004 and prior to the date of this Agreement, neither Ameritrade nor any of its Subsidiaries has incurred any liability or obligation of any nature whatsoever (whether absolute, accrued or contingent or otherwise and whether due or to become due) that, either alone or when combined with all similar liabilities or obligations, would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade.

Section 4.19. *Environmental Liability.* Except as set forth in Section 4.19 of the Ameritrade Disclosure Schedule, there are no legal, administrative, arbitral or other proceedings, claims, actions, causes of action, private environmental investigations or remediation activities or governmental investigations of any nature seeking to impose, or that are reasonably likely to result in the imposition, on Ameritrade or any of its Subsidiaries of any liability or obligation arising under common law standards relating to environmental protections, human health or safety, or under Environmental Laws, pending or, to the knowledge of Ameritrade, threatened, against Ameritrade or any of its Subsidiaries, which liability or obligation would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. To the knowledge of Ameritrade, there is no reasonable basis for any such proceeding, claim, action or governmental investigation that would impose any liability or obligation that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Except as set forth in Section 4.19 of the Ameritrade Disclosure Schedule, to the knowledge of Ameritrade, during or prior to the period of (i) the ownership by Ameritrade or any of its Subsidiaries of any of their respective current properties, (ii) the participation by Ameritrade or any of its Subsidiaries in the management of any property, or (iii) the holding by Ameritrade or any of its Subsidiaries of a security interest or other interest in any property, there were no releases or threatened release of Hazardous Materials in, on, under or affecting any such property which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Neither Ameritrade nor any of its Subsidiaries is subject to any agreement, order, judgment, decree, letter or memorandum by or with any Governmental Authority or third party imposing any material liability or obligation pursuant to or under any Environmental Law that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Notwithstanding the generality of any other representations and warranties in this Agreement, the representations and warranties in this Section 4.19 shall be deemed the only representations and warranties of Ameritrade in this Agreement with respect to matters relating to Environmental Laws or to Hazardous Materials.

Section 4.20. *Transactions with Affiliates.* Except (i) as set forth in Section 4.20 of the Ameritrade Disclosure Schedule, (ii) as disclosed in the Ameritrade SEC Documents filed prior to the date hereof, (iii) the Stockholders Agreement, the Registration Rights Agreement and the Voting Agreement, (iv) for brokerage accounts and margin loans extended in the ordinary course of business consistent with past practice and (v) any arrangement, contract, agreement or transaction which involves per annum payments by Ameritrade and its Subsidiaries of less than \$60,000, there are no contracts or

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other agreements between Ameritrade or any of its Subsidiaries, on the one hand, and any of its Affiliates or any officer, director or employee of any such Affiliate, on the other hand.

Section 4.21. *No Broker or Finders.* Except for those Persons identified in Section 4.21 of the Ameritrade Disclosure Schedule, whose fees and expenses will be paid by Ameritrade, neither Ameritrade nor any of its Subsidiaries nor any of their respective officers or directors has employed any broker or finder or incurred any liability for any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement.

Section 4.22. *Vote Required.* No vote or approval of the holders of any securities of Ameritrade is required with respect to the approval of this Agreement, the Transaction Agreements and the transactions contemplated hereby and thereby, except for (i) approval of the Ameritrade Restated Charter by the affirmative vote of the holders of a majority of the outstanding shares of Common Stock and (ii) the approval of the Ameritrade Stock Issuance by the affirmative vote of the holders of a majority of the shares of Common Stock having voting power present in person or represented by proxy and voting at a meeting at which the holders of a majority of the shares of Common Stock are present in person or represented by proxy (the *Ameritrade Required Votes* ).

Section 4.23. *Insurance.* Ameritrade and its Subsidiaries maintain insurance policies that are customary in scope and amount of coverage. All of such insurance policies are in full force and effect, and neither Ameritrade nor any of its Subsidiaries is in default in any material respect with respect to their obligations under any of such insurance policies. All premiums or payments payable under all such insurance policies for periods prior to and ending on the date hereof have been duly paid or accrued on the financial statements of Ameritrade included in the Ameritrade SEC Documents.

Section 4.24. *Accounting Controls.* (a) Ameritrade and its Subsidiaries have devised and maintained systems of internal accounting controls sufficient to provide reasonable assurances that (i) all transactions, receipts and expenditures are executed only in accordance with management's general or specific authorization, (ii) all transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP and to maintain proper accountability for items, (iii) access to their property and assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for items is compared with the actual levels at reasonable intervals and appropriate action is taken with respect to any differences, except with respect to (i) through (iv) for such failures as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Ameritrade (A) has designed disclosure controls and procedures (within the meaning of Rules 13a-15(e) and 15d-15(e) of the Exchange Act) to ensure that material information relating to Ameritrade and its consolidated Subsidiaries is made known to the management of Ameritrade by others within those entities as appropriate to allow timely decisions regarding required disclosure and to make the certifications required by the Exchange Act with respect to the Ameritrade SEC Documents, and (B) has disclosed, based on its most recent evaluation of internal control over financial reporting prior to the date hereof, to Ameritrade's auditors and the audit committee of Ameritrade's Board of Directors (1) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect in any material respect Ameritrade's ability to record, process, summarize and report financial information and (2) any fraud, whether or not material, that involves management or other employees who have a significant role in Ameritrade's internal controls over financial reporting. Ameritrade has made available to TD a summary of any such disclosure described in clauses (1) and (2) of the preceding sentence made by management to Ameritrade's auditors and audit committee since September 27, 2002. Ameritrade has initiated its process of compliance with Section 404 of the Sarbanes-Oxley Act and, as of the date hereof, Ameritrade expects to be in full compliance therewith by the SEC mandated compliance date. Each Subsidiary of Ameritrade that is registered as a broker-dealer has adopted record keeping systems that comply in all material respects with the requirements of applicable law (including, in the case of U.S. broker-dealer entities, Section 17 of the Exchange Act and the rules and regulations thereunder) and the rules of all self-regulatory organizations having jurisdiction over such Ameritrade Subsidiary, and maintains its records in substantial compliance therewith.



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(b) Except as set forth in Section 4.24(b) of the Ameritrade Disclosure Schedule, since September 27, 2002 and except as disclosed in the Ameritrade SEC Documents filed by Ameritrade with the SEC prior to the date of this Agreement, (x) neither Ameritrade nor any of its Subsidiaries nor, to the knowledge of Ameritrade, any director, officer, employee, auditor, accountant or representative of Ameritrade or any of its Subsidiaries has received or otherwise had or obtained knowledge of any complaint, allegation or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of Ameritrade or any of its Subsidiaries, which if true would have a material impact on the financial statements of Ameritrade contained in any of the Ameritrade SEC Documents, and (y) no attorney representing Ameritrade or any of its Subsidiaries, whether or not employed by Ameritrade or any of its Subsidiaries, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by Ameritrade or any of its officers, directors, employees or agents to the Board of Directors of Ameritrade or any committee thereof or to any director or officer of Ameritrade pursuant to Section 307 of the Sarbanes-Oxley Act.

Section 4.25. *Interest Rate Risk Management Instruments.* Neither Ameritrade nor any of its Subsidiaries is a party to any interest rate swaps, caps, floors and option agreements and other interest rate risk management arrangements, whether entered into for the account of Ameritrade or any of its Subsidiaries or for the account of a customer of Ameritrade or any of its Subsidiaries.

Section 4.26. *Labor and Employment Matters.* There are no collective bargaining or other labor union agreements to which Ameritrade or any of its Subsidiaries is a party or by which any of them is bound. To the knowledge of Ameritrade, since June 1, 2002, neither Ameritrade nor any of its Subsidiaries has encountered any labor union organizing activity or had any actual or threatened employee strikes, work stoppages, slowdowns or lockouts, other than any such events that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade. Except with respect to instances that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Ameritrade, Ameritrade and each of its Subsidiaries (a) is, and since June 1, 2002, has been in, compliance with all applicable laws relating to employment and employment practices, occupational safety and health standards, terms and conditions of employment and wages and hours, and (b) is not, and since June 1, 2002, has not, engaged in any unfair labor practice. During the two years preceding the date of this Agreement, except as set forth in Section 4.26 of the Ameritrade Disclosure Schedule, Ameritrade has not received written notice of any unfair labor practice charge against Ameritrade or any of its Subsidiaries which charge remains pending.

## ARTICLE V Covenants

Section 5.1. *Conduct of Business of Waterhouse Prior to the Closing.* During the period from the date of this Agreement and continuing until the Closing (except as expressly contemplated by the Reorganization or as contemplated or permitted by this Agreement or as set forth in Section 5.1 of the TD Disclosure Schedule or to the extent that Ameritrade shall otherwise consent in writing, such consent not to be unreasonably withheld, conditioned or delayed), TD agrees that it will cause Waterhouse and each Business Subsidiary to (i) carry on their respective businesses in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and in compliance with all applicable laws and regulations, (ii) pay its debts and Taxes when due and pay or perform other material obligations when due and (iii) use all reasonable efforts to preserve intact the present business organizations of Waterhouse and the Business Subsidiaries, maintain the rights and franchises of, and preserve the relationships with customers, suppliers and others having business dealings with, Waterhouse and the Business Subsidiaries to the end that their goodwill and ongoing businesses shall not be impaired in any material respect at the Closing. Without limiting the generality of the foregoing, during the period from the date of this Agreement to the Closing, except as expressly contemplated or permitted by this Agreement or as set forth in Section 5.1 of the TD Disclosure Schedule, (x) without the prior written consent of Ameritrade, (A) TD shall not permit Waterhouse or any of the Business Subsidiaries to sell any of its seats on the

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New York Stock Exchange if such sale would result in Waterhouse and the Business Subsidiaries, collectively, not owning any seats on the New York Stock Exchange, and (B) if at any time Waterhouse and the Business Subsidiaries, collectively, own only one seat on the New York Stock Exchange, TD shall not permit Waterhouse or any of the Business Subsidiaries to lease such seat and (y) TD shall not permit or any Business Subsidiary to, without the prior written consent of Ameritrade, such consent not to be unreasonably withheld, conditioned or delayed:

(a) except as contemplated by the Reorganization, (i) set any record or payment dates for the payment of any dividends or distributions on its capital stock, or declare or pay any dividends on or make other distributions in respect of any of its capital stock, except for (A) dividends by a wholly-owned Subsidiary of Waterhouse to Waterhouse; provided that such dividends do not result in a violation of Section 1.3(f)(i) hereof, and (B) dividends paid to TD by Waterhouse to the extent it reasonably estimates that Waterhouse's Closing Date Net Tangible Book Value will exceed its Targeted Closing Date Net Tangible Book Value (provided that no such dividend shall affect TD's obligations under Section 1.3), (ii) adjust, split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or (iii) repurchase, redeem or otherwise acquire, or permit any Subsidiary to purchase or otherwise acquire, any shares of its capital stock or the capital stock of any Business Subsidiary or any securities convertible into or exchangeable or exercisable for any shares of such capital stock;

(b) issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock, Voting Debt or any securities convertible into or exchangeable or exercisable for, or any rights, warrants or options to acquire, any such shares or Voting Debt, or enter into any agreement with respect to any of the foregoing, other than (i) as contemplated by the Reorganization, or (ii) issuances by a wholly-owned Subsidiary of Waterhouse of its capital stock to Waterhouse;

(c) except as contemplated by the Reorganization, amend or propose to amend its certificate of incorporation or its bylaws or other organizational documents, or enter into a plan of consolidation, merger, share exchange or reorganization with any Person (other than consolidations, mergers or reorganizations solely among wholly-owned Subsidiaries (other than with respect to a Business Subsidiary) of Waterhouse), or a letter of intent or agreement in principle with respect thereto, or adopt a plan of complete or partial liquidation;

(d) (i) enter into any new line of business, (ii) change any of its brokerage policies or practices in any respect which is material to Waterhouse, except as required by law or by policies imposed by a Governmental Authority, or (iii) incur or commit to any capital expenditures or any obligations or liabilities in connection therewith other than capital expenditures and related obligations or liabilities incurred or committed to in the ordinary course of business consistent with past practice;

(e) except as contemplated by the Reorganization, make any acquisition of or investment in any other Person, by purchase or other acquisition of stock or other equity interests, by merger, consolidation, asset purchase or other business combination, or by formation of any joint venture or other business organization or by contributions to capital; or make any purchases or other acquisitions of any debt securities, property or assets (including any investments or commitments to invest in real estate or any real estate development project) in or from any other individual, corporation, joint venture or other entity other than a wholly-owned Subsidiary (other than a Business Subsidiary) of Waterhouse, except for (i) acquisitions of securities for the account of or for sale to customers in the ordinary course of business or (ii) foreclosures of securities pledged by customers in the ordinary course of business and other similar acquisitions in connection with securing or collecting debts previously contracted in the ordinary course of business;

(f) sell, lease, encumber or otherwise dispose of, or agree to sell, lease, encumber or otherwise dispose of, any of its assets (including capital stock of Subsidiaries of Waterhouse), which are material, individually or in the aggregate, to Waterhouse, other than (i) internal reorganizations or consolidations involving existing Subsidiaries (other than a Business Subsidiary) of Waterhouse, (ii) as contemplated by

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the Reorganization, (iii) other activities in the ordinary course of business consistent with past practice or (iv) in connection with indebtedness permitted under Section 5.1(g);

(g) incur any long-term indebtedness for borrowed money or guarantee any such long-term indebtedness or issue or sell any long-term debt securities or warrants or rights to acquire any long-term debt securities of Waterhouse or any of the Business Subsidiaries or guarantee any long-term debt securities of others other than (i) in connection with the payment of dividends permitted by paragraph (a)(i) above, (ii) borrowings of any Business Subsidiary to Waterhouse or another Business Subsidiary, (iii) indebtedness in the ordinary course of business consistent with past practice, or (iv) renewals, replacements or extensions of existing indebtedness;

(h) intentionally take any action that would, or would reasonably be expected to, result in any of the conditions to the Closing set forth in Article VI not being satisfied;

(i) make any changes in its accounting methods, practices or policies, except as required under law, rule, regulation or GAAP or Canadian GAAP, in each case as concurred in by TD's independent auditors;

(j) (i) enter into, adopt, amend (except for technical amendments and such amendments as may be required by law) or terminate any Waterhouse Benefit Plan or any other Benefit Plan or any agreement, arrangement, plan or policy between Waterhouse or any of the Business Subsidiaries and one or more of its current or former directors or officers or any of their respective immediate family members, affiliates or associates (as such terms are defined under the Exchange Act), (ii) except for normal increases in the ordinary course of business consistent with past practice, increase in any material manner the compensation or fringe benefits of any director, officer or employee of Waterhouse or any of the Business Subsidiaries or pay or grant any benefit not required by any plan and arrangement as in effect as of the date hereof (including severance or termination pay), (iii) enter into or renew any contract, agreement, commitment or arrangement providing for the payment to any director or officer of Waterhouse or any of the Business Subsidiaries of compensation or benefits contingent upon the occurrence of any of the transactions contemplated by this Agreement, (iv) loan or advance any money or other property to any present or former director or officer of Waterhouse or the Business Subsidiaries other than pursuant to any plan or arrangement as in effect as of the date hereof, or (v) grant any equity-based compensation;

(k) except as contemplated by the Reorganization, enter into any contract that would be required to be disclosed in Section 3.8(a) of the TD Disclosure Schedule if it were in effect on the date hereof, or renew or terminate any contract listed in Section 3.8(a) of the TD Disclosure Schedule, other than (i) renewals of contracts or leases for a term of one year or less without material changes to the terms thereof and (ii) contracts entered into or amended in connection with indebtedness permitted under Section 5.1(g), *provided* that TD shall consult with Ameritrade prior to any such renewal of the contracts set forth in Section 5.1(k) of the TD Disclosure Schedule;

(l) except in connection with the Reorganization, engage or participate in any material transaction or incur or sustain any material obligation not in the ordinary course of business consistent with past practice;

(m) except as contemplated by the Reorganization, pay, discharge, settle, compromise or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), including taking any action to settle or compromise any litigation, in each case, (i) relating to this Agreement or the transactions contemplated hereby or (ii) that is otherwise material to Waterhouse and the Business Subsidiaries, other than, in the case of matters covered by clause (ii), the payment, discharge, settlement, compromise or satisfaction, in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the Waterhouse Financial Statements (or the notes thereto, where applicable), or incurred since April 30, 2005 in the ordinary course of business consistent with past practice;

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(n) make any material changes to its method of Tax accounting (unless required by applicable law), file any material amended Return (other than amended Returns that are to be filed in order to claim deductions for research and development costs for prior years) or settle or compromise any material Tax liability;

(o) open any new branches, offices or facilities or relocate or close any existing offices or facilities, or file any application with any Governmental Authority to do any of the foregoing, except for openings, closings and relocations in progress on the date of this Agreement or planned on the date hereof and disclosed in Section 5.1 of the TD Disclosure Schedule; or change in any material respect the pricing or terms of its customer services (except in response to changes in competitive conditions or prevailing market practices);

(p) agree to, or make any commitment to, take any of the actions prohibited by this Section 5.1; or

(q) enter into any agreement to purchase or sell any interest in real property, grant any security interest in any real property, enter into any lease, sublease, license or other occupancy agreement with respect to any real property, other than in the ordinary course of business consistent with past practice and other than in connection with any branch, office or facility opening listed in Section 5.1 of the TD Disclosure Schedule or materially alter, amend, modify, violate or terminate any of the terms of any of the Waterhouse Leases.

None of the foregoing provisions of this Section 5.1 shall prohibit any action by Waterhouse or any of the Business Subsidiaries if and to the extent that such action (i) is reasonably necessary to facilitate an action to be taken by or with respect to an Excluded Subsidiary in connection with the Reorganization and (ii) will not result in any liability or obligation on the part of Waterhouse or any Business Subsidiary following the Closing, other than any such liability or obligation that is reflected, accrued or reserved for on the Final Statement of Waterhouse.

Section 5.2. *Conduct of Business of Ameritrade Prior to the Closing.* During the period from the date of this Agreement and continuing until the Closing, Ameritrade agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or as set forth in Section 5.2 of the Ameritrade Disclosure Schedule or to the extent that TD shall otherwise consent in writing, such consent not to be unreasonably withheld, conditioned or delayed), Ameritrade will and will cause each of its Subsidiaries to (i) carry on its business in the usual, regular and ordinary course in substantially the same manner as heretofore conducted and in compliance with all applicable laws and regulations, (ii) pay its debts and Taxes when due, pay or perform other material obligations when due and (iii) use all reasonable efforts to preserve intact its present business organizations, maintain its rights and franchises and preserve its relationships with customers, suppliers and others having business dealings with them to the end that their goodwill and ongoing businesses shall not be impaired in any material respect at the Closing. Without limiting the generality of the foregoing, except as expressly contemplated or permitted by this Agreement or as set forth in Section 5.2 of the Ameritrade Disclosure Schedule, during the period from the date of this Agreement to the Closing, Ameritrade shall not, and shall not permit any of its Subsidiaries to, without the prior written consent of TD, such consent not to be unreasonably withheld, conditioned or delayed:

(a) (i) set any record or payment dates for the payment of any dividends or distributions on its capital stock, or declare or pay any dividends on or make other distributions in respect of any of its capital stock, except for (A) the setting of any record date with respect to, and the declaration and payment of, a one-time special dividend in respect of the Common Stock, in an amount not to exceed the product of \$6.00 and the aggregate number of shares of Common Stock actually outstanding on the record date of such dividend (the *Special Dividend* ) and (B) dividends by a wholly-owned Subsidiary of Ameritrade (other than Ameritrade Canada or any of its Subsidiaries) to Ameritrade, (ii) adjust, split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or (iii) repurchase, redeem or otherwise acquire, or permit any Subsidiary to purchase or otherwise acquire (except for the account of its customers in the ordinary course of its brokerage business), any shares of its capital stock or any securities

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convertible into or exchangeable or exercisable for any shares of its capital stock, other than pursuant to the exercise of Ameritrade's repurchase rights or forfeitures, in each case with respect to unvested shares held by individuals terminating employment or service with Ameritrade of any of its Subsidiaries;

(b) (i) issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock, Voting Debt or any securities convertible into or exchangeable or exercisable for, or any rights, warrants or options to acquire, any such shares or Voting Debt, or enter into any agreement with respect to any of the foregoing (including any stockholders' rights agreement or similar plan), other than (A) the issuance of Ameritrade Common Stock pursuant to the exercise of stock options outstanding as of the date hereof and disclosed in Section 4.2(b) of the Ameritrade Disclosure Schedule, (B) issuances by a wholly-owned Subsidiary of Ameritrade of its capital stock to Ameritrade, and (C) the grant to employees, consultants and directors of Ameritrade, in the ordinary course of business and consistent with past practice, of options to acquire shares of Ameritrade Common Stock not to exceed options to purchase 750,000 shares of Ameritrade Common Stock in the aggregate, or (ii) use its discretion to accelerate the vesting of any stock options outstanding as of the date hereof and disclosed in Section 4.2(b) of the Ameritrade Disclosure Schedule or any other rights, warrants, or other grant of equity under any Ameritrade Benefit Plan;

(c) amend or propose to amend its certificate of incorporation or its bylaws except for the amendments contemplated by the Ameritrade Restated Charter and the Ameritrade Restated Bylaws, or enter into a plan of consolidation, merger, share exchange, reorganization or complete or partial liquidation with any Person (other than consolidations, mergers or reorganizations solely among wholly-owned Subsidiaries of Ameritrade), or a letter of intent or agreement in principle with respect thereto;

(d) (i) enter into any new line of business, (ii) change any of its brokerage policies or practices in any respect which is material to Ameritrade, except as required by law or by policies imposed by a Governmental Authority, or (iii) incur or commit to any capital expenditures or any obligations or liabilities in connection therewith other than capital expenditures and related obligations or liabilities incurred or committed to in the ordinary course of business consistent with past practice;

(e) make any acquisition of or investment in any other Person, by purchase or other acquisition of stock or other equity interests, by merger, consolidation, asset purchase or other business combination, or by formation of any joint venture or other business organization or by contributions to capital; or make any purchases or other acquisitions of any debt securities, property or assets (including any investments or commitments to invest in real estate or any real estate development project) in or from any other individual, corporation, joint venture or other entity other than a wholly-owned Subsidiary of Ameritrade, except for (i) acquisitions of securities for the account of or for sale to customers in the ordinary course of business or (ii) foreclosures of securities pledged by customers in the ordinary course of business and other similar acquisitions in connection with securing or collecting debts previously contracted in the ordinary course of business.

(f) sell, lease, encumber or otherwise dispose of, or agree to sell, lease, encumber or otherwise dispose of, any of its assets (including capital stock of Subsidiaries), which are material, individually or in the aggregate, to Ameritrade other than (i) internal reorganizations, liquidations or consolidations involving existing Subsidiaries of Ameritrade, (ii) other activities in the ordinary course of business consistent with past practice and (iii) in connection with indebtedness permitted under Section 5.2(g);

(g) incur any long-term indebtedness for borrowed money or guarantee any such long-term indebtedness or issue or sell any long-term debt securities or warrants or rights to acquire any long-term debt securities of Ameritrade or any of its Subsidiaries or guarantee any long-term debt securities of others other than (i) indebtedness of any Subsidiary of Ameritrade to Ameritrade or another Subsidiary of Ameritrade, (ii) borrowings in the ordinary course of business consistent with past practice, (iii) renewals, replacements or extensions of existing indebtedness and (iv) Special Dividend Indebtedness;

(h) intentionally take any action that would, or would reasonably be expected to, result in any of the conditions to the Closing set forth in Article VI not being satisfied;

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(i) make any changes in its accounting methods, practices or policies, except as required under law, rule, regulation or GAAP, in each case as concurred in by Ameritrade's independent auditors;

(j) (i) enter into, adopt, amend (except for technical amendments and such amendments as may be required by law) or terminate any Ameritrade Benefit Plan or any other Benefit Plan or any agreement, arrangement, plan or policy between Ameritrade or any of its Subsidiaries and one or more of its current or former directors or officers or any of their respective immediate family members, affiliates or associates (as such terms are defined under the Exchange Act), (ii) except for normal increases in the ordinary course of business consistent with past practice, increase in any material manner the compensation or fringe benefits of any director, officer or employee of Ameritrade or any of its Subsidiaries or pay or grant any benefit not required by any plan and arrangement as in effect as of the date hereof (including severance or termination pay), (iii) enter into or renew any contract, agreement, commitment or arrangement providing for the payment to any director or officer of Ameritrade or any of its Subsidiaries of compensation or benefits contingent, upon the occurrence of any of the transactions contemplated by this Agreement, (iv) loan or advance any money or other property to any present or former director or officer of Ameritrade or its Subsidiaries other than pursuant to any plan or arrangement as in effect as of the date hereof, or (v) except as permitted by paragraph (b) above, grant any equity-based compensation;

(k) enter into any contract that would be required to be disclosed in Section 4.9(a) of the Ameritrade Disclosure Schedule if it were in effect on the date hereof or filed as an exhibit to the Ameritrade SEC Documents pursuant to Item 601(b)(10) of Regulation S-K, or renew or terminate any such contract, other than (i) renewals of contracts or leases for a term of one year or less without material changes to the terms thereof and (ii) contracts entered into or amended in connection with indebtedness permitted under Section 5.2(g);

(l) engage or participate in any material transaction or incur or sustain any material obligation not in the ordinary course of business consistent with past practice;

(m) pay, discharge, settle, compromise or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), including taking any action to settle or compromise any litigation, in each case, (i) relating to this Agreement or the transactions contemplated hereby or (ii) that is otherwise material to Ameritrade and its Subsidiaries, other than, in the case of matters covered by clause (ii), the payment, discharge, settlement, compromise or satisfaction, in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) included in the Ameritrade SEC Documents filed prior to the date hereof, or incurred since September 24, 2004 in the ordinary course of business consistent with past practice;

(n) make any material changes to its method of Tax accounting (unless required by applicable law), file any material amended Return or settle or compromise any material Tax liability;

(o) open any new branches, offices or facilities or relocate or close any existing offices or facilities, or file any application with any Governmental Authority to do any of the foregoing, except for openings, closings and relocations in progress on the date of this Agreement or planned on the date hereof and disclosed in Section 5.2 of the Ameritrade Disclosure Schedule; or change in any material respect the pricing or terms of its customer services (except in response to changes in competitive conditions or prevailing market practices);

(p) agree to, or make any commitment to, take any of the actions prohibited by this Section 5.2; or

(q) enter into any agreement to purchase or sell any interest in real property, grant any security interest in any real property, enter into any lease, sublease, license or other occupancy agreement with respect to any real property, other than in the ordinary course of business consistent with past practice and other than in the ordinary course of business consistent with past practice or materially alter, amend, modify, violate or terminate any of the terms of any of the Ameritrade Leases.

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Section 5.3. *Ameritrade Stockholders Meeting.* (a) Ameritrade shall duly take all lawful action to call and give notice of, and shall use all reasonable efforts to convene and hold, a meeting of its stockholders as promptly as practicable after the date of this Agreement for the purpose of obtaining the Ameritrade Required Votes and any Additional Votes, and, subject to Section 5.3(c), shall use all reasonable efforts to solicit the approval of the Ameritrade Stock Issuance, the Ameritrade Restated Charter and any Additional Proposals by such stockholders. Ameritrade shall not fix, announce or change the record date for such meeting of its stockholders without TD's prior written consent, which shall not be unreasonably withheld. The Board of Directors of Ameritrade shall recommend approval by such stockholders of the Ameritrade Stock Issuance, the Ameritrade Restated Charter and any Additional Proposals (the *Ameritrade Recommendation*), shall cause the Ameritrade Recommendation to be included in the Proxy Statement, and shall not (nor shall any committee thereof) publicly withdraw, modify or qualify in any manner adverse to TD such recommendation (any such withdrawal, modification or qualification, a *Change in Ameritrade Recommendation*), except as and to the extent expressly permitted by Section 5.3(c). Notwithstanding any Change in Ameritrade Recommendation, unless this Agreement is terminated pursuant to Article VII, the Ameritrade Stock Issuance, the Ameritrade Restated Charter and any Additional Proposals shall be submitted to the stockholders of Ameritrade at the Ameritrade Stockholders Meeting for the purpose of approving the Ameritrade Stock Issuance, the Ameritrade Restated Charter and any Additional Proposals, and nothing contained in this Agreement shall be deemed to relieve Ameritrade of such obligation, unless this Agreement is terminated pursuant to Article VII. Notwithstanding anything to the contrary contained in this Agreement, Ameritrade may adjourn or postpone the Ameritrade Stockholders Meeting to the extent necessary to ensure that any supplement or amendment to the SEC Proxy Statement required by law is provided to its stockholders in advance of a vote on the Ameritrade Stock Issuance, the Ameritrade Restated Charter and any Additional Proposals or if as of the time for which the Ameritrade Stockholders Meeting is originally scheduled there are insufficient shares of Common Stock represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of the Ameritrade Stockholders Meeting or there are insufficient affirmative votes to obtain the Ameritrade Required Votes and any Additional Votes. In addition to the foregoing, Ameritrade shall not submit to the vote of its stockholders any Acquisition Proposal other than the transactions contemplated by this Agreement unless this Agreement is terminated pursuant to Article VII.

(b) In addition to the proposals to approve the Ameritrade Stock Issuance and the Ameritrade Restated Charter, Ameritrade shall submit to its stockholders for a vote at the Ameritrade Stockholders Meeting, shall include in the SEC Proxy Statement and, subject to Section 5.3(c), shall use all reasonable efforts in compliance with applicable law to solicit the approval of its stockholders of, such other matters related to this Agreement, the Transaction Agreements and the transactions contemplated hereby and thereby as TD may reasonably request, consistent with this Agreement and the Transaction Agreements and subject to the consent of Ameritrade, which shall not be unreasonably withheld, conditioned or delayed (collectively, the *Additional Proposals*). Unless otherwise required by law or the bylaws of Ameritrade or mutually agreed by TD and Ameritrade, the vote required to approve any Additional Proposals shall be the affirmative vote of the holders of a majority of the shares of Common Stock having voting power present in person or represented by proxy and voting at a meeting at which the holders of a majority of the shares of Common Stock are present (in person or represented by proxy) (collectively, the *Additional Votes*).

(c) Notwithstanding the foregoing, prior to obtaining the Ameritrade Required Votes and any Additional Votes, Ameritrade and its Board of Directors may effect a Change in Ameritrade Recommendation if and only to the extent that:

(i) Ameritrade has not materially breached its obligations under the second sentence of Section 5.4(c);

(ii) Ameritrade's Board of Directors, after consultation with its outside counsel and acting upon the recommendation of the Special Committee, determines in good faith that failure to take such action would be inconsistent with its fiduciary duties under applicable law; and

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(iii) Ameritrade (A) has received, on or after the date of this Agreement, a *bona fide* written Acquisition Proposal, not solicited in material violation of Section 5.4(a), from a third party which Ameritrade's Board of Directors (acting upon the recommendation of the Special Committee) concludes in good faith constitutes a Superior Proposal (as defined below) after giving effect to all of the adjustments which may be offered by TD pursuant to clause (C) below, (B) has notified TD, at least five Business Days in advance, of its intention to effect a Change in Ameritrade Recommendation, specifying the material terms and conditions of any such Superior Proposal and furnishing to TD a copy of the relevant proposed transaction agreements, if such exist, with the Person making such Superior Proposal and all other material documents relating to such Superior Proposal and (C) during the period of not less than five Business Days following Ameritrade's delivery of the notice referred to in clause (B) above and prior to effecting such a Change in Ameritrade Recommendation, has negotiated, and has used all reasonable efforts to cause its financial and legal advisors to negotiate, with TD in good faith (to the extent that TD desires to negotiate) to make such adjustments in the terms and conditions of this Agreement so that such Acquisition Proposal ceases to constitute a Superior Proposal.

Section 5.4. *No Solicitations.* (a) Ameritrade agrees that neither it nor any of its Subsidiaries shall, and that it shall use all reasonable efforts to cause its and its Subsidiaries' directors, officers, employees, agents and representatives (including any investment banker, financial advisor, attorney, accountant or other representative or agent (collectively, *Representatives* ) retained by it or any of its Subsidiaries) not to, directly or indirectly, (i) initiate, solicit or knowingly encourage or facilitate any inquiries or the making of any proposal or offer with respect to, or a transaction to effect, (A) a merger, reorganization, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving Ameritrade or any of its Subsidiaries, other than any such merger, share exchange, consolidation or other business combination resulting in or involving (x) the purchase or other acquisition by, or the sale or issuance to, any Person of securities representing (or convertible into or exchangeable for securities that would represent) less than 15% of the total voting power of Ameritrade or any of its Subsidiaries or (y) the purchase or sale of assets representing less than 15% of the aggregate fair market value of the consolidated assets (including stock of Ameritrade's Subsidiaries) of Ameritrade and its Subsidiaries, taken as a whole or (B) any purchase or sale of assets representing 15% or more of the aggregate fair market value of the consolidated assets (including stock of Ameritrade's Subsidiaries) of Ameritrade and its Subsidiaries, taken as a whole, or (C) any purchase or sale (by merger or otherwise) of, or tender or exchange offer for, securities of Ameritrade that, if consummated, would result in any Person beneficially owning securities representing 15% or more of the total voting power of Ameritrade or any of its *Significant Subsidiaries* (as defined in Rule 1-02 of Regulation S-X) (any such proposal, offer or transaction (other than a proposal or offer made by TD or an Affiliate thereof) being hereinafter referred to as an *Acquisition Proposal* ), (ii) have any discussions with or provide any confidential information or data to any Person relating to an Acquisition Proposal, or engage in any negotiations concerning an Acquisition Proposal, or knowingly facilitate any effort or attempt to make or implement an Acquisition Proposal, (iii) approve or recommend, or publicly propose to approve or recommend, any Acquisition Proposal (except as permitted by Section 5.3(c)), (iv) execute or enter into, or (except as permitted by Section 5.3(c)) approve or recommend, or publicly propose to approve or recommend, any letter of intent, agreement in principle, merger agreement, asset purchase or share exchange agreement, option agreement or other similar agreement related to any Acquisition Proposal, (v) grant any approval pursuant to Section 203(a)(1) or Section 203(a)(3) of the DGCL or (vi) publicly propose or agree to do any of the foregoing. Ameritrade shall advise its and its Significant Subsidiaries' directors and executive officers (as such term is defined in Rule 3b-7 under the Exchange Act, *Executive Officers* ) and its and their Representatives of the restrictions contained in this Section 5.4 and shall instruct such Persons to comply herewith. Notwithstanding the foregoing, in the event that after the date of this Agreement and prior to obtaining the Ameritrade Required Votes and any Additional Votes, Ameritrade receives a *bona fide* Acquisition Proposal not solicited in material violation of Section 5.4(a) and its Board of Directors (acting upon the recommendation of the Special Committee) concludes in good faith that such Acquisition Proposal constitutes or is reasonably likely to result in a Superior Proposal, Ameritrade may,

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and may permit its Subsidiaries and its and their Representatives to, furnish or cause to be furnished confidential information or data to the Person making such Acquisition Proposal and participate in negotiations or discussions with such Person regarding such Acquisition Proposal if and to the extent that the Ameritrade Board of Directors (acting upon the recommendation of the Special Committee) concludes in good faith, after consultation with its outside counsel, that failure to take such action would be inconsistent with its fiduciary duties under applicable law; *provided* that prior to providing (or causing to be provided) any confidential information or data permitted to be provided pursuant to this sentence, Ameritrade shall have entered into a confidentiality agreement with such third party on confidentiality terms no less favorable to Ameritrade than the Confidentiality Agreement, dated November 7, 2004, between TD and Ameritrade (the *Confidentiality Agreement*); and *provided further*, that Ameritrade shall also provide to TD a copy of any such confidential information or data that it is providing to any third party pursuant to this Section 5.4 to the extent not previously provided or made available to TD.

(b) For purposes of this Agreement, *Superior Proposal* means a *bona fide* written Acquisition Proposal which the Ameritrade Board of Directors (acting upon the recommendation of the Special Committee) concludes in good faith, after consultation with its outside financial and legal advisors, and taking into account all legal, financial, regulatory and other aspects of the proposal and the Person making the proposal (including any break-up fees, expense reimbursement provisions and conditions to consummation), (x) is more favorable to the stockholders of Ameritrade, from a financial point of view, than the transactions contemplated by this Agreement (taking into account the Ameritrade Board of Directors' good faith assessment of the prospective synergies and cost savings anticipated to be realized from and following the Share Purchase and the other transactions contemplated hereby) and (y) is fully financed or reasonably capable of being fully financed and otherwise reasonably capable of being completed on the terms proposed; *provided* that for purposes of this definition of *Superior Proposal*, the term *Acquisition Proposal* shall have the meaning assigned to such term in Section 5.4(a), except that in the definition of *Acquisition Proposal* (i) the reference to 15% in clauses (A)(y) and (B) shall be deemed to be a reference to 70%, (ii) the reference to 15% in clauses (A)(x) and (C) shall be deemed to be a reference to 40% and (iii) in order to qualify as an *Acquisition Proposal* under clauses (A)(x) or (C) a transaction must involve voting securities only of Ameritrade (and not of its Subsidiaries or Significant Subsidiaries), as the case may be (other than indirectly through the acquisition of voting securities of Ameritrade) (it being understood that an *Acquisition Proposal* need only meet any of clauses (A), (B) or (C) of the definition thereof (as modified by the foregoing proviso) in order to be eligible to be determined to be a *Superior Proposal* as provided above).

(c) (i) Ameritrade will, and will cause its Subsidiaries to, and will use all reasonable efforts to cause its and their respective directors, officers, employees, agents and Representatives to, immediately cease and cause to be terminated any activities, discussions or negotiations conducted before the date of this Agreement with any Persons other than TD with respect to any *Acquisition Proposal* and (ii) Ameritrade will use all reasonable efforts to enforce (and will not release any third party from its obligations under) any standstill, confidentiality or similar agreement relating to an *Acquisition Proposal*, including by requiring the other parties thereto to promptly return or destroy any confidential information previously furnished by Ameritrade thereunder and by using all reasonable efforts if reasonably requested by TD to seek injunctions or other equitable remedies to prevent or restrain any breaches of such agreements and to enforce specifically the terms and provisions thereof in a court of competent jurisdiction. Ameritrade will (x) promptly (but in no event more than two Business Days) following receipt of any *Acquisition Proposal*, or of any inquiry which Ameritrade concludes in good faith has a reasonable possibility of leading to an *Acquisition Proposal*, advise TD of the material terms thereof (including the identity of the Person making such *Acquisition Proposal* or inquiry in respect thereof), (y) keep TD apprised of any related developments, discussions and negotiations on a current basis (and in any event, within 48 hours of the occurrence of such developments, discussions or negotiations), and (z) furnish TD with a copy of any proposed transaction agreements and related documents with or from the Person making such *Acquisition Proposal* or inquiry in respect thereof promptly after the receipt by Ameritrade thereof. Without limiting the foregoing, Ameritrade shall provide TD with at least 48 hours prior notice (or such lesser prior notice

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as is provided to the Ameritrade Board of Directors) of any meeting of the Ameritrade Board of Directors at which meeting the Board of Directors is reasonably expected to consider an Acquisition Proposal.

(d) Nothing contained in this Agreement shall prevent Ameritrade or its Board of Directors from complying with Rule 14d-9 and Rule 14e-2 under the Exchange Act with respect to an Acquisition Proposal, *provided* that such Rules will in no way eliminate or modify the effect that any action pursuant to such Rules would otherwise have under this Agreement; and *provided, further*, that any such disclosure (other than a stop, look and listen or similar communication of the type contemplated by Rule 14d-9(f) under the Exchange Act) shall be deemed to be a Change in Ameritrade Recommendation unless the Ameritrade Board of Directors expressly reaffirms the Ameritrade Recommendation in such disclosure.

(e) Ameritrade agrees that any violation of the restrictions set forth in this Section 5.4 by any director, officer, employee, agent or Representative of Ameritrade or its Subsidiaries, at the direction or with the consent of Ameritrade or its Subsidiaries, shall be deemed to be a breach of this Section 5.4 by Ameritrade. For the avoidance of doubt, it is understood and agreed that participation by Ameritrade and its duly authorized directors, officers, employees, agents or Representatives in negotiations and discussions in compliance with the provisions of paragraph (a) of this Section 5.4 with respect to an Acquisition Proposal following the receipt thereof shall not be deemed to constitute the solicitation of an Acquisition Proposal if such initial receipt was not initiated, solicited, encouraged or facilitated in violation of this Section 5.4, and notwithstanding any changes to such Acquisition Proposal that may result from such discussions or negotiations.

Section 5.5. *Legal Conditions.* (a) Subject to the terms and conditions of this Agreement, each of TD and Ameritrade shall, and shall cause its respective Subsidiaries to, use all reasonable efforts (i) to take, or cause to be taken, all actions necessary to comply promptly with all legal requirements which may be imposed on such party or its Subsidiaries with respect to the transactions contemplated by this Agreement and to consummate the transactions contemplated by this Agreement as promptly as practicable and (ii) to obtain (and to cooperate with the other party to obtain) any consent, authorization, order or approval of, or any exemption by, any Governmental Authority and any other third party which is required to be obtained or made by TD, Ameritrade or any of their respective Subsidiaries in connection with the Share Purchase and the other transactions contemplated by this Agreement. Without limiting the generality or effect of the foregoing, Ameritrade and/or TD, as applicable, shall, as soon as practicable, make any initial filings required under the HSR Act and the Competition Act (Canada) (the *Competition Filings*). The parties shall consult and cooperate with one another, and consider in good faith the views of one another, in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party hereto in connection with proceedings under or relating to the Competition Filings; *provided*, that with respect to any such analyses, appearances, presentations, memoranda, briefs, arguments, opinions or proposals, each of Ameritrade and TD need not supply the other (or its counsel) with copies (or in case of oral presentations, a summary) to the extent that any law, treaty, rule or regulation of any Governmental Authority applicable to such party requires such party or its subsidiaries to restrict or prohibit access to any such information.

(b) Each party will notify the other promptly upon the receipt of: (i) any comments from any officials of any Governmental Authority in connection with any filings made pursuant hereto, and (ii) any request by any officials of any Governmental Authority for amendments or supplements to, or additional information regarding, any such filings. Whenever any event occurs that is required to be set forth in an amendment or supplement to any filing made pursuant to this Section 5.5, each party will promptly inform the other of such occurrence and cooperate in filing with the applicable Governmental Authority such amendment or supplement. In addition, Ameritrade and TD shall, to the extent permitted by law and the applicable Governmental Authority and except as otherwise provided in the last sentence of Section 5.5(a), permit the other party to review in advance any communication intended to be given by it to, and consult with the other party in advance of any meeting or conference with, a Governmental Authority or any other Person in connection with any proceeding by a private party, and to the extent permitted by

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such Governmental Authority or other Person, give the other party the opportunity to attend and participate in such meetings and conferences.

(c) Each of Ameritrade and TD shall use all reasonable efforts to resolve such objections, if any, as may be asserted by any Governmental Authority with respect to the transactions contemplated by this Agreement under the HSR Act, the Sherman Act, as amended, the Clayton Act, as amended, the Federal Trade Commission Act, as amended, the Competition Act (Canada), and any other federal, state or foreign statutes, rules, regulations, orders or decrees that are designed to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade (collectively, *Antitrust Laws* ). Each of Ameritrade and TD shall use all reasonable efforts to take such action as may be required to cause the expiration of the notice periods under the HSR Act, apply for an Advance Ruling Certificate or no-action letter from the Commissioner of Competition (Canada), and comply with other Antitrust Laws with respect to the transactions contemplated by this Agreement as promptly as practicable after the execution of this Agreement. Ameritrade and TD shall use all reasonable efforts to take any and all of the following actions to the extent necessary to obtain the approval of any Governmental Authority with jurisdiction over the enforcement of any applicable laws regarding the transactions contemplated hereby: (i) entering into negotiations, (ii) providing information required by law or governmental regulation, and (iii) complying with any second request for information pursuant to the Antitrust Laws.

(d) Notwithstanding anything to the contrary contained in this Agreement (except as expressly provided in this Section 5.5(d)), neither Ameritrade nor TD shall be under any obligation to make proposals, execute or carry out agreements or submit to orders providing for a Divestiture. *Divestiture* shall mean (A) the sale, license or other disposition or holding separate (through the establishment of a trust or otherwise) of any material assets or categories of assets of Ameritrade or Waterhouse or any of their respective Affiliates, as applicable, (B) the imposition of any material limitation or restriction on the ability of Ameritrade or Waterhouse or any of their respective Affiliates, as applicable, to freely conduct their business or own such assets, or (C) the holding separate of the shares of Waterhouse Common Stock or any limitation or regulation on the ability of Ameritrade or any of its Affiliates to exercise full rights of ownership of the shares of Waterhouse Common Stock. In the event that the Commissioner of Competition applies, threatens in writing to apply, or advises TD or Ameritrade that it proposes to apply to the Competition Tribunal (Canada) for an order (including an injunction) with respect to the transactions contemplated in this Agreement, TD and Ameritrade shall negotiate in good faith with each other, and confer with the Commissioner of Competition, to arrange for the consummation of the transactions contemplated by this Agreement subject to the holding separate of Ameritrade Canada, Inc. by the parties following the Closing (and prior to consummation of the transactions contemplated by the Ameritrade Canada Purchase Agreement). If the parties are unable to reach agreement with the Commissioner of Competition regarding such a hold separate transaction, then Ameritrade shall effect a sale or other disposition of Ameritrade Canada, Inc. prior to the Closing on commercially reasonable terms.

(e) Notwithstanding anything to the contrary contained in this Agreement, nothing in this Section 5.5 shall limit a party's right to terminate this Agreement pursuant to Section 7.1(b) so long as such party has until such date complied with its obligations under this Section 5.5.

(f) Notwithstanding anything to the contrary contained in this Section 5.5, TD shall be under no obligation pursuant to this Section 5.5 to provide Ameritrade with any nonpublic information regarding TD or its Affiliates, other than Waterhouse and the Business Subsidiaries.

(g) Subject to the terms and conditions of this Agreement, each of TD and Ameritrade agrees to use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable to consummate, as soon as practicable after the date of this Agreement, the transactions contemplated hereby (including the Reorganization, *provided* that the Reorganization need only be completed prior to or concurrent with the Closing), including using all reasonable efforts to (i) modify or amend any contracts, plans, or arrangements to which Waterhouse or any of the Business Subsidiaries, or Ameritrade or any of its Subsidiaries, as the case may be, is a party (to the extent permitted by the terms hereof) if necessary in order to satisfy the conditions to closing set forth in



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Article VI hereof, (ii) lift or rescind any injunction or restraining order or other order adversely affecting the ability of the parties to consummate the transactions contemplated hereby and (iii) defend any Litigation seeking to enjoin, prevent or delay the consummation of the transactions contemplated hereby or seeking material damages in connection therewith (in which Litigation Ameritrade shall provide TD the reasonable opportunity to participate).

Section 5.6. *Employee Benefit Plans.*

(a) Ameritrade and TD agree to cooperate reasonably during the period prior to the Closing Date to ensure the continuity of the workforce of Ameritrade and Waterhouse and to preserve the human resources thereof. Between the date of this Agreement and the Closing Date, TD agrees that Waterhouse shall not terminate any employee of Waterhouse and the Business Subsidiaries for any reason other than unsatisfactory job performance or misconduct. For a transition period beginning on the Closing Date and ending on the later of (i) the first anniversary of the Closing Date or (ii) 30 days following the clearing conversion of all Waterhouse client accounts following the Closing Date, as certified to TD by an Executive Officer of Ameritrade (such period, the *Transition Period*), Ameritrade shall, or shall cause its Subsidiaries to, provide each employee of Waterhouse and the Business Subsidiaries, including any such employee who, on the Closing Date, is absent from work by reason of vacation, injury, sick leave, short-term disability, long-term disability, or due to authorized leave of absence or military service (collectively, the *Affected Employees*), with (x) base salary and/or wage levels and bonus compensation at least equal to that provided to such Affected Employee immediately prior to the Closing Date, and (y) other employee benefits, including defined contribution pension benefits and equity based compensation, that are no less favorable in the aggregate than such employee benefits provided by Ameritrade to similarly situated employees of Ameritrade after the Closing Date. Nothing in this Section 5.6(a) shall obligate Ameritrade or any of its Subsidiaries to continue the employment of any Affected Employee for any period following the Closing Date.

(b) During the Transition Period, Ameritrade shall, or shall cause its Subsidiaries to maintain a severance pay practice, program or arrangement for the benefit of each Affected Employee, including levels of severance and terms of severance, that is no less favorable than that provided by Waterhouse under such practice, program or arrangement in effect immediately prior to the Closing Date with respect to such Affected Employee, subject to Section 5.6(g) hereof. Notwithstanding the foregoing, in the event that, during the Transition Period:

(i) Ameritrade determines that it will terminate any Affected Employee to whom TD has a written or legal obligation of repatriation to Canada, Ameritrade agrees to negotiate in good faith with TD regarding the impact of any such termination, *provided, however*, that (A) (1) Ameritrade shall not be obligated to pay any severance to such Affected Employee who accepts employment in Canada with TD and (2) Ameritrade shall pay one-half of the reasonable costs associated with such repatriation (intended to primarily represent relocation expenses) and (B) (1) Ameritrade shall be obligated to pay any severance to such Affected Employee who will not be employed in Canada with TD and (2) TD shall pay one hundred percent of the reasonable costs associated with such repatriation (intended to primarily represent relocation expenses); and

(ii) Ameritrade terminates any Affected Employee during a quarterly or annual bonus period, Ameritrade agrees that, subject to Section 5.6(f), such Affected Employee shall be entitled to a pro rata bonus calculated by multiplying (A) the average of his or her bonus for the prior two quarterly or annual bonus periods (as applicable) times (B) a fraction, the numerator of which is the amount of days within the quarterly or annual bonus period, as applicable, that have elapsed prior to such Affected Employee's date of termination, and the denominator of which is the total number of days in such bonus period.

(c) Ameritrade shall, or shall cause its Subsidiaries to, give Affected Employees full credit for purposes of eligibility and vesting and benefit accrual (except for benefit accruals under any defined benefit pension plan) under such employee benefit plans or arrangements maintained by Ameritrade or its Subsidiaries in which such Affected Employees participate for such Affected Employees' service with

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Waterhouse or its Business Subsidiaries (or its predecessors) to the same extent recognized by Waterhouse or the Business Subsidiaries immediately prior to the Closing Date. None of the provisions contained in this Section 5.6(c) shall operate to duplicate any benefit provided to any Affected Employee.

(d) Ameritrade shall, or shall cause its Subsidiaries to, (i) waive all limitations with respect to the Affected Employees as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements under any welfare benefit plan maintained by Ameritrade after the Closing Date, to the extent such Affected Employees were not subject to such preexisting condition, exclusion and waiting period under the comparable Waterhouse Benefit Plan as of the time immediately preceding the Closing, and (ii) provide each Affected Employee with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any applicable deductible or out-of-pocket requirements under any welfare plans that such Affected Employees are eligible to participate in after the Closing Date.

(e) Ameritrade shall, or shall cause its Subsidiaries to, expressly assume or retain, all liabilities and obligations under or relating to the termination protection agreements set forth in Section 5.6(e) of the TD Disclosure Schedule and Ameritrade agrees to honor such termination protection agreements in accordance with their terms, subject to Section 5.6(g) hereof.

(f) In respect of the quarterly and annual bonuses payable to Affected Employees for service rendered in TD's fiscal years 2005 and 2006 (the *Waterhouse 2005 and 2006 Bonus Program*), Ameritrade shall, or shall cause its Subsidiaries to, consistent with this Section 5.6(f), continue to honor the terms and conditions of all obligations existing as of the Closing Date. Notwithstanding the foregoing, Ameritrade, or its Subsidiaries, shall only be responsible to pay its proportional share of any quarterly and annual bonuses under the Waterhouse 2005 and 2006 Bonus Program determined following the Closing Date, based on the ratio of the number of days elapsed in the quarterly or annual bonus period, as applicable, after the Closing Date, to the total number of days in such quarterly or annual bonus period, as applicable. TD shall retain responsibility to pay its proportional share of all such quarterly and annual bonuses under the Waterhouse 2005 and 2006 Bonus Program, based on the ratio of the number of days elapsed in the quarterly or annual bonus period, as applicable, prior to and including the Closin