TD AMERITRADE HOLDING CORP
Form 10-Q
February 05, 2010

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

FORM 10-Q

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended December 31, 2009

OR

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the transition period from _________ to _________

Commission file number: 0-49992

TD AMERITRADE HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

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

4211 South 102nd Street, Omaha, Nebraska, 68127
(Address of principal executive offices) (Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months. Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of January 29, 2010, there were 589,529,942 outstanding shares of the registrant s common stock.

TD AMERITRADE HOLDING CORPORATION

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
TD AMERITRADE Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD AMERITRADE Holding Corporation (the Company) as of December 31, 2009, and the related condensed consolidated statements of income and cash flows for the three-month periods ended December 31, 2009 and 2008. These financial statements are the responsibility of the Company s management.

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

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of TD AMERITRADE Holding Corporation as of September 30, 2009, and the related consolidated statements of income, stockholders equity, and cash flows for the year then ended (not presented herein) and in our report dated November 13, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP
Minneapolis, Minnesota
February 5, 2010

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 31, 2009 (Unaudited)	September 30, 2009
ASSETS		
Cash and cash equivalents	$ 903,891	$ 791,211
Short-term investments	40,477	52,071
Cash and investments segregated in compliance with federal regulations	5,570,850	5,813,862
Receivable from brokers, dealers and clearing organizations	1,158,994	1,777,741
Receivable from clients net of allowance for doubtful accounts	6,329,011	5,712,261
Receivable from affiliates	87,587	92,974
Other receivables net of allowance for doubtful accounts	62,176	73,921
Securities owned, at fair value	275,309	23,405
Property and equipment net of accumulated depreciation and amortization	244,799	238,256
Goodwill	2,468,875	2,472,098
Acquired intangible assets net of accumulated amortization	1,199,142	1,224,722
Deferred income taxes	15,724	17,161
Other assets	90,349	82,127
Total assets	$ 18,447,184	$ 18,371,810
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 2,004,163	$ 2,491,617
Payable to clients	10,546,040	9,914,823
Accounts payable and accrued liabilities	599,163	700,786
Payable to affiliates	3,868	3,724
Deferred revenue	80,226	72,134
Long-term debt	1,256,983	1,414,900
Capitalized lease obligations	24,847	28,565
Deferred income taxes	227,249	193,978
Total liabilities	14,742,539	14,820,527
Stockholders equity:		
Preferred stock, $0.01 par value; 100 million shares authorized, none issued		
Common stock, $0.01 par value; one billion shares authorized; 631,381,860 shares issued; December 31, 2009 - 588,970,893 outstanding; September 30, 2009 - 587,109,497 outstanding	6,314	6,314

Additional paid-in capital	1,558,727	1,574,638
Retained earnings	2,666,354	2,530,117
Treasury stock, common, at cost December 31, 2009 - 42,410,967 shares; September 30, 2009 - 44,272,363 shares	(526,895)	(559,883)
Deferred compensation	201	171
Accumulated other comprehensive loss	(56)	(74)
Total stockholders equity	3,704,645	3,551,283
Total liabilities and stockholders equity	$ 18,447,184	$ 18,371,810

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended December 31,	
	2009	**2008**
Revenues:		
Transaction-based revenues:		
Commissions and transaction fees	$ 309,388	$ 287,113
Asset-based revenues:		
Interest revenue	101,240	92,514
Brokerage interest expense	(1,827)	(7,675)
Net interest revenue	99,413	84,839
Insured deposit account fees	155,331	163,230
Investment product fees	29,421	69,166
Total asset-based revenues	284,165	317,235
Other revenues	31,065	6,381
Net revenues	624,618	610,729
Operating expenses:		
Employee compensation and benefits	146,639	117,390
Clearing and execution costs	21,905	15,628
Communications	24,659	18,744
Occupancy and equipment costs	34,889	30,127
Depreciation and amortization	13,610	11,503
Amortization of acquired intangible assets	25,580	15,538
Professional services	33,707	27,339
Advertising	65,193	46,697
Other	18,036	11,564
Total operating expenses	384,218	294,530
Operating income	240,400	316,199
Other expense:		
Interest on borrowings	11,629	15,637
Loss on debt refinancing	8,392	

Total other expense	20,021	15,637
Pre-tax income	220,379	300,562
Provision for income taxes	84,142	116,164
Net income	$ 136,237	$ 184,398
Earnings per share basic	$ 0.23	$ 0.31
Earnings per share diluted	$ 0.23	$ 0.31
Weighted average shares outstanding basic	587,843	591,748
Weighted average shares outstanding diluted	595,634	600,601

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands, except share amounts)

	Three Months Ended December 31,	
	2009	**2008**
Cash flows from operating activities:		
Net income	$ 136,237	$ 184,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,610	11,503
Amortization of acquired intangible assets	25,580	15,538
Deferred income taxes	30,979	(132,638)
Loss on disposal of property	644	1,273
Loss on debt refinancing	8,392	
Stock-based compensation	9,181	6,382
Excess tax benefits on stock-based compensation	(5,320)	(271)
Other, net	(346)	73
Changes in operating assets and liabilities:		
Cash and investments segregated in compliance with federal regulations	243,012	(1,609,120)
Receivable from brokers, dealers and clearing organizations	618,747	2,320,349
Receivable from clients, net	(616,750)	2,902,009
Receivable from/payable to affiliates, net	5,726	56,382
Other receivables, net	11,682	8,742
Securities owned	(251,533)	3,971
Other assets	(6,582)	(6,285)
Payable to brokers, dealers and clearing organizations	(487,454)	(3,548,630)
Payable to clients	631,217	4,685
Accounts payable and accrued liabilities	(89,480)	72,637
Deferred revenue	8,092	(1,602)
Net cash provided by operating activities	285,634	289,396
Cash flows from investing activities:		
Purchase of property and equipment	(20,797)	(13,190)
Purchase of short-term investments	(1,100)	
Proceeds from sale and maturity of short-term investments	1,100	
Proceeds from redemption of money market funds	11,594	250,934
Proceeds from sale of other investments available-for-sale		140
Net cash (used in) provided by investing activities	(9,203)	237,884

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)
(In thousands, except share amounts)

	Three Months Ended December 31,	
	2009	**2008**
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$ 1,248,557	$
Payment of debt issuance costs	(10,032)	
Principal payments on long-term debt	(1,406,500)	(9,375)
Principal payments on capital lease obligations	(3,718)	(309)
Proceeds from exercise of stock options; Three months ended December 31, 2009 - 1,599,089 shares; 2008 - 80,976 shares	5,835	372
Purchase of treasury stock; Three months ended December 31, 2009 - 159,000 shares; 2008 - 2,980,563 shares	(3,229)	(37,584)
Excess tax benefits on stock-based compensation	5,320	271
Net cash used in financing activities	(163,767)	(46,625)
Effect of exchange rate changes on cash and cash equivalents	16	(635)
Net increase in cash and cash equivalents	112,680	480,020
Cash and cash equivalents at beginning of period	791,211	674,135
Cash and cash equivalents at end of period	$ 903,891	$ 1,154,155
Supplemental cash flow information:		
Interest paid	$ 7,701	$ 30,840
Income taxes paid	$ 100,744	$ 109,470
Tax benefit on exercises and distributions of stock-based compensation	$ 9,414	$ 282

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Periods Ended December 31, 2009 and 2008
(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of TD AMERITRADE Holding Corporation and its wholly-owned subsidiaries (collectively, the Company). Intercompany balances and transactions have been eliminated.

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles. The Company evaluated subsequent events through February 5, 2010, the date on which this quarterly report on Form 10-Q was filed with the SEC. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s annual report filed on Form 10-K for the fiscal year ended September 30, 2009.

Recently Adopted Accounting Pronouncements:

ASC 805 On October 1, 2009, the Company adopted Accounting Standards Codification (ASC) 805, *Business Combinations*. ASC 805 generally requires an acquirer to recognize the identifiable assets acquired, liabilities assumed, contingent purchase consideration and any noncontrolling interest in the acquiree at fair value on the date of acquisition. It also requires an acquirer to recognize as expense most transaction and restructuring costs as incurred, rather than include such items in the cost of the acquired entity. For the Company, ASC 805 applies prospectively to business combinations for which the acquisition date is on or after October 1, 2009. The adoption of ASC 805 did not have a material impact on the Company s condensed consolidated financial statements.

ASC 820-10 On October 1, 2009, the Company adopted ASC 820-10, *Fair Value Measurements and Disclosures*, for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of ASC 820-10 did not have a material impact on the Company s condensed consolidated financial statements.

2. GOODWILL AND ACQUIRED INTANGIBLE ASSETS

The Company has recorded goodwill for purchase business combinations to the extent the purchase price of each completed acquisition exceeded the fair value of the net identifiable tangible and intangible assets of each acquired company. The following table summarizes changes in the carrying amount of goodwill for the three months ended December 31, 2009 (dollars in thousands):

Balance as of September 30, 2009	$ 2,472,098
Purchase accounting adjustments, net of income taxes (1)	871
Tax benefit on stock-based compensation awards (2)	(4,094)
Balance as of December 31, 2009	$ 2,468,875

(1) Purchase accounting adjustments primarily consist of adjustments to assumed liabilities relating to the

acquisition of thinkorswim Group Inc. (thinkorswim) in fiscal 2009.

(2) Represents the tax benefit realized on replacement stock awards that were issued in connection with the Datek Online Holdings Corp. (Datek) merger in fiscal 2002 and the thinkorswim acquisition. The tax benefit realized on a stock award is recorded as a reduction of goodwill to the extent the Company recorded fair value of the replacement award in the purchase accounting. To the extent any gain realized on a stock award exceeds the fair value of the replacement award recorded in the purchase accounting, the tax benefit on the excess is recorded as additional paid-in capital.

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The Company s acquired intangible assets consist of the following as of December 31, 2009 (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	$ 1,230,469	$ (281,236)	$ 949,233
Technology and content	100,904	(8,214)	92,690
Trade names	10,100	(3,019)	7,081
Non-competition agreement	5,486	(1,022)	4,464
Trademark license	145,674		145,674
	$ 1,492,633	$ (293,491)	$ 1,199,142

Estimated future amortization expense for acquired intangible assets outstanding as of December 31, 2009 is as follows (dollars in thousands):

Fiscal Year	Estimated Amortization Expense
2010 Remaining	75,085
2011	96,705
2012	92,893
2013	91,630
2014	91,168
2015	90,288
Thereafter (to 2025)	515,699
Total	$ 1,053,468

3. CASH AND CASH EQUIVALENTS

The Company s cash and cash equivalents is summarized in the following table (dollars in thousands):

	December 31, 2009	September 30, 2009
Corporate	$ 170,957	$ 273,137
Broker-dealer subsidiaries	677,523	473,996
Trust company subsidiary	34,541	25,143
Investment advisory subsidiaries	20,870	18,935
Total	$ 903,891	$ 791,211

Capital requirements may limit the amount of cash available for dividend from the broker-dealer and trust company subsidiaries to the parent company. Cash and cash equivalents of the investment advisory subsidiaries is generally not available for corporate purposes.

4. LONG-TERM DEBT

Long-term debt consists of the following (dollars in thousands):

	December 31, 2009	September 30, 2009
2.950% Senior Notes due 2012, net of unamortized discount of $249	$ 249,751	$
4.150% Senior Notes due 2014, net of unamortized discount of $485	499,515	
5.600% Senior Notes due 2019, net of unamortized discount of $683	499,317	
Term A Facility		140,625
Term B Facility		1,265,875
Other	8,400	8,400
Total long-term debt	$ 1,256,983	$ 1,414,900

Fiscal year maturities on long-term debt outstanding at December 31, 2009 are as follows (dollars in thousands):

2010 Remaining	$ 4,138
2011	4,262
2012	
2013	250,000
2014	
2015	500,000
Thereafter	500,000
Total	$ 1,258,400

Senior Notes On November 25, 2009 the Company sold, through a public offering, $1.25 billion aggregate principal amount of unsecured senior notes, consisting of $250 million aggregate principal amount of 2.950% Senior Notes due December 1, 2012 (the 2012 Notes), $500 million aggregate principal amount of 4.150% Senior Notes due December 1, 2014 (the 2014 Notes) and $500 million aggregate principal amount of 5.600% Senior Notes due December 1, 2019 (the 2019 Notes and, collectively with the 2012 Notes and the 2014 Notes, the Senior Notes). The Senior Notes were issued at an aggregate discount of $1.4 million, which is being amortized to interest expense over the terms of the respective Senior Notes. Interest on the Senior Notes is payable semi-annually in arrears on June 1 and December 1 of each year.

The Company used the net proceeds from the issuance of the Senior Notes, together with approximately $158 million of cash on hand, to repay in full the outstanding principal under the Company s January 23, 2006 credit agreement, effective as of November 25, 2009. Upon repayment, the January 23, 2006 credit agreement (including the Term A Facility, the Term B Facility and the Revolving Facility as amended on November 5, 2009), was automatically amended and restated in its entirety pursuant to the Amended and Restated Credit Agreement (the Restated Credit Agreement), dated as of November 25, 2009, as described below.

The Senior Notes are jointly and severally and fully and unconditionally guaranteed by each of the Company s current and future subsidiaries that is or becomes a borrower or a guarantor under the Restated Credit Agreement. Currently, the only subsidiary guarantor of the obligations under the Senior Notes is TD AMERITRADE Online Holdings Corp. (TDAOH). The Senior Notes and the guarantee by the subsidiary guarantor are the general senior unsecured obligations of the Company and the subsidiary guarantor.

The Company may redeem each series of the Senior Notes, in whole at any time or in part from time to time, at a redemption price equal to the greater of (a) 100% of the principal amount of the notes being redeemed, and (b) the sum of the present values of the remaining scheduled payments of principal and interest on the notes being redeemed, discounted to the date of redemption on a semi-annual basis at the comparable U.S. treasury rate, plus 25 basis points in the case of the 2012 Notes, plus 30 basis points in the case of the 2014 Notes and plus 35 basis points in the case of the 2019 Notes, plus, in each case, accrued and unpaid interest to the date of redemption.

Interest Rate Swaps The Company is exposed to changes in the fair value of its fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, on December 30, 2009, the Company entered into fixed-for-variable interest rate swaps on the 2012 Notes and 2014 Notes for notional amounts of $250 million and $500 million, respectively, with maturity dates matching the respective maturity dates of the 2012 Notes and 2014 Notes. The interest rate swaps effectively change the fixed-rate interest on the 2012 Notes and 2014 Notes to variable-rate interest. Under the terms of the interest rate swap agreements, the Company receives semi-annual fixed-rate interest payments based on the same rates applicable to the 2012 Notes and 2014 Notes, and makes quarterly variable-rate interest payments based on three-month LIBOR plus (a) 0.9693% for the swap on the 2012 Notes and (b) 1.245% for the swap on the 2014 Notes. The interest rate swaps are accounted for as fair value hedges and qualify for the shortcut method of accounting. Changes in the payment of interest resulting from the interest rate swaps are recorded as an offset to interest on borrowings on the Condensed Consolidated Income Statements. Changes in fair value of the interest rate swaps are completely offset by changes in fair value of the related notes, resulting in no effect on net income. The fair value of the interest rate swaps was not material as of December 31, 2009.

The interest rate swaps are subject to counterparty credit risk. Credit risk is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold and by entering into credit support agreements. The bilateral credit support agreement related to the interest rate swaps requires daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps.

Restated Revolving Facility The Restated Credit Agreement consists of a senior unsecured revolving credit facility in the aggregate principal amount of $300 million (the Restated Revolving Facility). The maturity date of the Restated Revolving Facility is December 31, 2012. The applicable interest rate under the Restated Revolving Facility is calculated as a per annum rate equal to, at the option of the Company, (a) LIBOR plus an interest rate margin (LIBOR loans) or (b) (i) the highest of (x) the prime rate, (y) the federal funds effective rate plus 0.50% or (z) one-month LIBOR plus 1.00%, plus (ii) an interest rate margin (Base Rate loans). The interest rate margin ranges from 2.00% to 4.00% for LIBOR loans and from 1.00% to 3.00% for Base Rate loans, determined by reference to the Company s public debt ratings. The Company is obligated to pay a commitment fee ranging from 0.225% to 0.750% on any unused amount of the Restated Revolving Facility, determined by reference to the Company s public debt ratings. As of December 31, 2009, the interest rate margin would be 2.50% for LIBOR loans and 1.50% for Base Rate loans, and the commitment fee is 0.375% per annum, each determined by reference to the Company s current Standard & Poor s public debt rating of BBB+. There were no borrowings outstanding under the Restated Revolving Facility as of December 31, 2009.

The obligations under the Restated Credit Agreement are guaranteed by each significant subsidiary (as defined in SEC Rule 1-02(w) of Regulation S-X) of the Company, other than broker-dealer subsidiaries, futures commission merchant subsidiaries and controlled foreign corporations. Currently, the only subsidiary guarantor of the obligations under the Restated Credit Agreement is TDAOH.

The Restated Credit Agreement contains negative covenants that limit or restrict the incurrence of liens, indebtedness of subsidiaries, mergers, consolidations, transactions with affiliates, change in nature of business and the sale of all or substantially all of the assets of the Company and its subsidiaries, subject to certain exceptions. The Company is also required to maintain compliance with a maximum consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant, and the Company s broker-dealer subsidiaries are required to maintain compliance with a minimum regulatory net capital covenant. The Company is restricted under the Restated Credit Agreement from incurring additional indebtedness in an aggregate principal amount in excess of $100 million that includes any covenants that are more restrictive (taken as a whole) as to the Company than those contained in the Restated Credit Agreement, unless the Restated Credit Agreement is amended to include such more restrictive covenants prior to the incurrence of such additional indebtedness. The Company was in compliance with all covenants under the Restated Credit Agreement as of December 31, 2009.

Broker-dealer Credit Facilities The Company, through its wholly-owned broker-dealer subsidiaries, had access to secured uncommitted credit facilities with financial institutions of up to $630 million as of December 31, 2009 and September 30, 2009. The broker-dealer subsidiaries also had access to unsecured uncommitted credit facilities of up to $150 million as of December 31, 2009 and September 30, 2009. The financial institutions may make loans under line of credit arrangements or, in some cases, issue letters of credit under these facilities. The secured credit facilities require the Company to pledge qualified client securities to secure outstanding obligations under these facilities. Borrowings under the secured and unsecured credit facilities bear interest at a variable rate based on the federal funds rate. There were no borrowings outstanding or letters of credit issued under the secured or unsecured credit facilities as of December 31, 2009 and September 30, 2009. As of December 31, 2009 and September 30, 2009, approximately $780 million was available to the Company s broker-dealer subsidiaries pursuant to uncommitted credit facilities for either loans or, in some cases, letters of credit.

5. CAPITAL REQUIREMENTS

The Company s broker-dealer subsidiaries are subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934 (the Exchange Act)), which requires the maintenance of minimum net capital, as defined. Net capital is calculated for each broker-dealer subsidiary individually. Excess net capital of one broker-dealer subsidiary may not be used to offset a net capital deficiency of another broker-dealer subsidiary. Net capital and the related net capital requirement may fluctuate on a daily basis.

Net capital and net capital requirements for the Company s broker-dealer subsidiaries are summarized in the following table (dollars in thousands):

	December 31, 2009			September 30, 2009		
	Net Capital	Minimum Net Capital Required	Excess Net Capital	Net Capital	Minimum Net Capital Required	Excess Net Capital
TD AMERITRADE Clearing, Inc.	$ 853,107	$ 139,474	$ 713,633	$ 855,630	$ 137,943	$ 717,687
TD AMERITRADE, Inc.	344,984	500	344,484	263,957	500	263,457
thinkorswim, Inc.	65,315	1,693	63,622	43,677	2,376	41,301
Totals	$ 1,263,406	$ 141,667	$ 1,121,739	$ 1,163,264	$ 140,819	$ 1,022,445

TD AMERITRADE Clearing, Inc. (TDA Clearing) is a clearing broker-dealer and TD AMERITRADE, Inc. (TDA Inc.) and thinkorswim, Inc. are introducing broker-dealers.

The Company s non-depository trust company subsidiary, TD AMERITRADE Trust Company (TDATC), is subject to capital requirements established by the State of Maine, which requires TDATC to maintain minimum Tier 1 capital, as defined. TDATC s Tier 1 capital was $14.0 million and $14.7 million as of December 31, 2009 and September 30, 2009, respectively, which exceeded the required Tier 1 capital by $4.0 million and $4.7 million, respectively.

6. COMMITMENTS AND CONTINGENCIES

Spam Litigation A purported class action, captioned *Elvey v. TD Ameritrade, Inc.*, was filed on May 31, 2007 in the United States District Court for the Northern District of California. The complaint alleges that there was a breach in TDA Inc. s systems, which allowed access to e-mail addresses and other personal information of account holders, and that as a result account holders received unsolicited e-mail from spammers promoting certain stocks and have been subjected to an increased risk of identity theft. The complaint requests unspecified damages and injunctive and other equitable relief. A second lawsuit, captioned *Zigler v. TD Ameritrade, Inc.*, was filed on September 26, 2007, in the same jurisdiction on behalf of a purported nationwide class of account holders. The factual allegations of the complaint and the relief sought are substantially the same as those in the first lawsuit. The cases were consolidated under the caption *In re TD Ameritrade Accountholders Litigation*. The Company hired an independent consultant to investigate whether identity theft occurred as a result of the breach. The consultant conducted four investigations from August 2007 to June 2008 and reported that it found no evidence of identity theft. The parties entered into an agreement to settle the lawsuits on a class basis subject to court approval. On May 1, 2009, the Court granted preliminary approval of the proposed settlement, which had been revised. Some class members filed objections and opt-outs. The court denied final approval of the proposed settlement on October 23, 2009. The court ruled that the asserted benefits of the settlement to the class were not sufficient to warrant approval and that the proposed settlement was not fair, reasonable and adequate. A case conference has been scheduled for February 25, 2010.

Auction Rate Securities Matters The SEC and other regulatory authorities conducted investigations regarding the sale of auction rate securities (ARS). On July 20, 2009, TDA Inc. finalized settlements with the SEC and other regulatory authorities, concluding investigations by the regulators into TDA Inc. s offer and sale of ARS. Under these settlement agreements, TDA Inc. commenced a tender offer to purchase, from certain current and former account holders, eligible ARS that were purchased through TDA Inc. on or before February 13, 2008, provided the ARS were not transferred away from the firm prior to January 24, 2006. This offer does not extend to clients who purchased ARS through independent registered investment advisors or through another firm and transferred such securities to TDA Inc. TDA Inc. will complete the program in two phases, based on the amount of assets a client holds at TDA Inc., and will complete all repurchases no later than June 30, 2010. In addition, TDA Inc. offered to make whole any losses sustained by eligible clients who purchased ARS through TDA Inc. on or before February 13, 2008 and sold such securities at a loss prior to July 20, 2009. TDA Inc. offered to reimburse clients whose borrowing costs exceeded the amount they earned in interest or dividends from their eligible ARS at the time they borrowed money from TDA Inc. to satisfy liquidity needs. TDA Inc. will participate in a special arbitration process for the purpose of arbitrating eligible investors consequential damages claims arising from their inability to sell their eligible ARS. No fines were imposed by the regulators under the settlement agreements.

The offer commenced on August 10, 2009. Through December 31, 2009, TDA Inc. has purchased eligible ARS with an aggregate par value of approximately $269 million. TDA Inc. estimates that, as of December 31, 2009, ARS up to a total par value of approximately $114 million may remain outstanding and eligible for the tender offer. The ultimate amounts of tendered ARS purchased and remaining ARS eligible for the tender offer may decrease due to issuer redemptions. The Company is accounting for the ARS settlement as a financial guarantee. The Company recorded a charge to earnings of $13.8 million for the estimated fair value of this guarantee during the fourth quarter of fiscal 2009. As of December 31, 2009 and September 30, 2009, a liability of $2.0 million and $13.8 million, respectively, for this guarantee is included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets.

Reserve Fund Matters During September 2008, The Reserve, an independent mutual fund company, announced that the net asset value of two of its money market mutual funds (the Primary Fund and the International Liquidity Fund) declined below $1.00 per share. In addition, The Reserve announced that the net asset value of the Reserve Yield Plus Fund, which is not a money market mutual fund, declined below $1.00 per share. TDA Inc. s clients hold shares in these funds, which are being liquidated by The Reserve. From October 31, 2008 through January 29, 2010, Primary Fund, International Liquidity Fund and Yield Plus Fund shareholders have received distributions totaling approximately $0.99 per share, $0.86 per share and $0.94 per share, respectively. The SEC and other regulatory authorities are conducting investigations regarding TDA Inc. s offering of The Reserve funds to clients. TDA Inc. has received subpoenas and other requests for documents and information from the regulatory authorities. TDA Inc. is cooperating with the investigations and requests.

In November 2008, a purported class action lawsuit was filed with respect to the Yield Plus Fund. The lawsuit is captioned *Ross v. Reserve Management Company, Inc. et al.* in the U.S. District Court for the Southern District of New York. The Ross lawsuit is on behalf of persons who purchased shares of Reserve Yield Plus Fund. On November 20, 2009, the plaintiffs filed a first amended complaint naming as defendants the Fund s advisor, certain of its affiliates and the Company and certain of its directors, officers and shareholders as alleged control persons. The complaint alleges claims of violations of the federal securities laws and other claims based on allegations that false and misleading statements and omissions were made in the Reserve Yield Plus Fund prospectuses and in other statements regarding the Fund. The complaint seeks an unspecified amount of compensatory damages including interest, attorneys fees, rescission, exemplary damages and equitable relief. On January 19, 2010, the defendants submitted motions to dismiss the complaint.

Legal and Regulatory Matters The Company is subject to lawsuits, arbitrations, claims and other legal proceedings in connection with its business including, but not limited to, the matters discussed above. Some of the legal actions include claims for substantial or unspecified compensatory and/or punitive damages. A substantial adverse judgment or other unfavorable resolution of these matters could have a material adverse effect on the Company s financial condition, results of operations and cash flows or could cause the Company significant reputational harm. Management believes the Company has adequate legal defenses with respect to the legal proceedings to which it is a defendant or respondent and the outcome of these pending proceedings is not likely to have a material adverse effect on the financial condition, results of operations or cash flows of the Company. However, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters, or the eventual loss that may result from these matters.

In the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters, including, but not limited to, the regulatory matters discussed above, could result in censures, fines, penalties or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company s financial condition, results of operations or cash flows. However, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters, or the eventual fines, penalties or injunctive or other equitable relief that may result from these matters.

Income Taxes The Company s federal and state income tax returns are subject to examination by taxing authorities. Because the application of tax laws and regulations to many types of transactions is subject to varying interpretations, amounts reported in the condensed consolidated financial statements could be significantly changed at a later date upon final determinations by taxing authorities. The Toronto-Dominion Bank (TD) has agreed to indemnify the Company for tax obligations, if any, pertaining to activities of TD Waterhouse prior to the Company s acquisition of TD Waterhouse.

General Contingencies In the ordinary course of business, there are various contingencies that are not reflected in the condensed consolidated financial statements. These include the Company s broker-dealer subsidiaries client activities involving the execution, settlement and financing of various client securities transactions. These activities may expose the Company to credit risk in the event the clients are unable to fulfill their contractual obligations.

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Client securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client s account. In connection with these activities, the Company also executes and clears client transactions involving the sale of securities not yet purchased (short sales). Such margin-related transactions may expose the Company to credit risk in the event a client s assets are not sufficient to fully cover losses that the client may incur. In the event the client fails to satisfy its obligations, the Company has the authority to purchase or sell financial instruments in the client s account at prevailing market prices in order to fulfill the client s obligations. The Company seeks to mitigate the risks associated with its client securities activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels throughout each trading day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

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

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

The Company transacts in reverse repurchase agreements in connection with its broker-dealer business. The Company s policy is to take possession or control of securities with a market value in excess of the principal amount loaned, plus accrued interest, in order to collateralize resale agreements. The Company monitors the market value of the underlying securities that collateralize the related receivable on resale agreements on a daily basis and may require additional collateral when deemed appropriate.

As of December 31, 2009, client excess margin securities of approximately $8.8 billion and stock borrowings of approximately $1.0 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned approximately $2.0 billion and repledged approximately $0.7 billion of that collateral as of December 31, 2009.

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

See Insured Deposit Account Agreement in Note 10 for a description of a guarantee included in that agreement.

See Auction Rate Securities Matters above in this Note 6 for a description of a guarantee related to the ARS settlement.

During September 2008, the net asset value of two money market mutual funds held by some of the Company s clients, the Primary Fund and the International Liquidity Fund, declined below $1.00 per share. These funds are managed by The Reserve, an independent mutual fund company. The Reserve subsequently announced it was suspending redemptions of these funds to effect an orderly liquidation. The Company announced a commitment of up to

$55 million to protect its clients positions in these funds. In the event the Company s clients receive less than $1.00 per share for these funds upon an orderly liquidation, the Company will commit up to $50 million (or $0.03 per share of the fund) for clients in the Primary Fund and up to $5 million for clients in the International Liquidity Fund to mitigate client losses. Based on information from The Reserve and other publicly available information, the Company has accrued an estimated fair value of $27.0 million for this obligation as of December 31, 2009 and September 30, 2009, which is included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets.

Employment Agreements The Company has entered into employment agreements with several of its key executive officers. These employment agreements generally provide for annual base salary and incentive compensation, stock award acceleration and severance payments in the event of termination of employment under certain defined circumstances or changes in control of the Company. Incentive compensation amounts are based on the Company s financial performance and other factors.

7. FAIR VALUE DISCLOSURES

Fair Value Measurement Definition and Hierarchy

ASC 820-10, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches, including market, income and/or cost approaches. ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. This category includes active exchange-traded funds, mutual funds and equity securities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Such inputs include quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. This category includes most debt securities and other interest-sensitive investment securities.

Level 3 Unobservable inputs for the asset or liability, where there is little, if any, observable market activity or data for the asset or liability. This category includes assets and liabilities related to money market mutual funds managed by The Reserve for which the net asset value has declined below $1.00 per share and the funds are being liquidated. This category also includes auction rate securities for which the periodic auctions have failed.

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The following tables present the Company s fair value hierarchy for assets and liabilities measured on a recurring basis as of December 31, 2009 and September 30, 2009 (dollars in thousands):

	As of December 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets:				
Short-term investments:				
Money market mutual funds	$	$	$ 39,377	$ 39,377
U.S. government debt securities		1,100		1,100
Subtotal Short-term investments		1,100	39,377	40,477
Securities owned:				
Auction rate securities			266,657	266,657
Money market mutual funds			4,607	4,607
Equity securities	1,033	23		1,056
U.S. government debt securities		171		171
Municipal debt securities		975		975
Corporate debt securities		1,289		1,289
Other debt securities		554		554
Subtotal Securities owned	1,033	3,012	271,264	275,309
Total assets at fair value	$ 1,033	$ 4,112	$ 310,641	$ 315,786
Liabilities:				
Securities sold, not yet purchased:				
Equity securities	$ 4,046	$ 35	$	$ 4,081
Money market mutual funds			1	1
Municipal debt securities		375		375
Other debt securities		8		8
Total Securities sold, not yet purchased[1]	$ 4,046	$ 418	$ 1	$ 4,465

(1) Amounts are included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets.

	As of September 30, 2009			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Short-term investments:				
Money market mutual funds	$	$	$ 50,971	$ 50,971
U.S. government debt securities		1,100		1,100
Subtotal Short-term investments		1,100	50,971	52,071
Securities owned:				
Auction rate securities			14,579	14,579
Money market mutual funds			5,049	5,049
Equity securities	471	23		494
Municipal debt securities		2,049		2,049
Corporate debt securities		702		702
Other debt securities		532		532
Subtotal Securities owned	471	3,306	19,628	23,405
Total assets at fair value	$ 471	$ 4,406	$ 70,599	$ 75,476
Liabilities:				
Securities sold, not yet purchased:				
Equity securities	$ 3,102	$ 2	$	$ 3,104
Money market mutual funds			1	1
Municipal debt securities		118		118
Corporate debt securities		23		23
Total Securities sold, not yet purchased(1)	$ 3,102	$ 143	$ 1	$ 3,246

(1) Amounts are included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets.

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The following tables present the changes in Level 3 assets and liabilities measured on a recurring basis for the three months ended December 31, 2009 and 2008 (dollars in thousands):

	September 30, 2009	Net Gains (Losses) Included in Earnings (1)	Purchases, Sales, Issuances and Settlements, Net	December 31, 2009
Assets:				
Short-term investments:				
Money market mutual funds	$ 50,971	$	$ (11,594)	$ 39,377
Securities owned:				
Auction rate securities	14,579	371	251,707	266,657
Money market mutual funds	5,049		(442)	4,607
Subtotal Securities owned	19,628	371	251,265	271,264
Total assets at fair value	$ 70,599	$ 371	$ 239,671	$ 310,641
Liabilities:				
Securities sold, not yet purchased:				
Money market mutual funds	$ 1	$	$	$ 1

(1) Net gains (losses) included in earnings are recorded in other revenues on the Condensed Consolidated Statements of Income and were not related to assets held as of December 31, 2009.

	October 1, 2008	Net Gains (Losses) Included in Earnings	Purchases, Sales, Issuances and Settlements, Net	December 31, 2008
Assets:				
Cash and cash equivalents (1)	$ 217,471	$	$ (217,471)	$

Short-term investments:								
Money market mutual funds		368,066		(81)		(250,934)		117,051
Securities owned:								
Auction rate securities		6,925				9,350		16,275
Money market mutual funds		46,662				(35,048)		11,614
Subtotal Securities owned		53,587				(25,698)		27,889
Other investments:								
Auction rate securities		10,000				(140)		9,860
Total assets at fair value	$	649,124	$	(81)	$	(494,243)	$	154,800
Liabilities:								
Securities sold, not yet purchased:								
Money market mutual funds	$	4,636	$		$	(4,412)	$	224

(1) Represents positions in the Primary Fund that were classified as cash and cash equivalents as of September 30, 2008.

Effective October 1, 2009, the Company adopted ASC 820-10 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. There were no nonfinancial assets or liabilities measured at fair value during the quarter ended December 31, 2009.

Valuation Techniques

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to the Company s Level 1 investments. If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. This pricing methodology applies to the Company s Level 2 investments.

Money Market Mutual Funds The fair value of money market mutual fund positions in the Primary Fund is estimated by management based on the underlying portfolio holdings data published by The Reserve and is categorized in Level 3 of the fair value hierarchy.

Auction Rate Securities ARS are long-term variable rate securities tied to short-term interest rates that are reset through a Dutch auction process, which generally occurs every seven to 35 days. Holders of ARS were previously able to liquidate their holdings to prospective buyers by participating in the auctions. During fiscal 2008, the Dutch auction process failed and holders were no longer able to liquidate their holdings through the auction process. The fair value of Company ARS holdings is estimated based on an internal pricing model and categorized in Level 3 of the fair value hierarchy. The pricing model takes into consideration the characteristics of the underlying securities as well as multiple inputs, including counterparty credit quality, expected timing of early redemptions and the yield premium that a market participant would require over otherwise comparable securities to compensate for the illiquidity of the ARS. These inputs require significant management judgment.

Fair Value of Long-Term Debt

As of December 31, 2009, the Company s Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $1.25 billion, which approximated the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet. As of September 30, 2009, the Company s Term A and Term B credit facilities had an aggregate estimated fair value, based on quoted market prices, of $1.39 billion, compared to the Condensed Consolidated Balance Sheet carrying value of $1.41 billion.

8. EARNINGS PER SHARE

The following is a reconciliation of the numerator and denominator used in the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended December 31,	
	2009	**2008**
Net income	$ 136,237	$ 184,398
Weighted average shares outstanding basic	587,843	591,748
Effect of dilutive securities:		
Stock options	5,642	6,233
Restricted stock units	2,039	2,540
Deferred compensation shares	110	80
Weighted average shares outstanding diluted	595,634	600,601
Earnings per share basic	$ 0.23	$ 0.31
Earnings per share diluted	$ 0.23	$ 0.31

9. COMPREHENSIVE INCOME

Comprehensive income is as follows (dollars in thousands):

	Three Months Ended December 31,	
	2009	2008
Net income	$ 136,237	$ 184,398
Other comprehensive income (loss):		
Net unrealized losses on investment securities available-for-sale		(610)
Adjustment for deferred income taxes on net unrealized losses		227
Foreign currency translation adjustment	18	(404)
Total other comprehensive income (loss), net of tax	18	(787)
Comprehensive income	$ 136,255	$ 183,611

10. RELATED PARTY TRANSACTIONS

Transactions with TD and Affiliates

As a result of the acquisition of TD Waterhouse during fiscal 2006, TD became an affiliate of the Company. TD owned approximately 45% of the Company s common stock as of December 31, 2009. Pursuant to the Stockholders Agreement, TD has the right to designate five of twelve members to the Company s board of directors. The Company transacts business and has extensive relationships with TD and certain of its affiliates. A description of significant transactions with TD and its affiliates is set forth below.

Insured Deposit Account Agreement

The Company is party to an insured deposit account (IDA) agreement (formerly known as the money market deposit account or MMDA agreement) with TD Bank USA, N.A. (TD Bank USA), TD Bank, N.A., (TD Bank , and together with TD Bank USA, the Depository Institutions) and TD. Under the IDA agreement, the Depository Institutions make available to clients of the Company money market deposit accounts as either designated sweep vehicles or as non-sweep deposit accounts. The Company provides marketing, recordkeeping and support services for the Depository Institutions with respect to the money market deposit accounts. In exchange for providing these services, the Depository Institutions pay the Company a fee based on the yield earned by the Depository Institutions on the client IDA assets, less the actual interest paid to clients, a flat fee to TD Bank USA of 25 basis points and the cost of FDIC insurance premiums.

The IDA agreement has a term of five years beginning July 1, 2008, and is automatically renewable for successive five-year terms, provided that it may be terminated by any party upon two years prior written notice. The agreement provides that the marketing fee earned on the IDA agreement is calculated based on three primary components: (a) the actual yield earned on investments in place as of July 1, 2008, which were primarily fixed-income securities backed by Canadian government guarantees, (b) the yield on other fixed-rate investments, based on prevailing fixed rates for identical balances and maturities in the interest rate swap market (generally LIBOR-based) at the time such investments were added to the IDA portfolio and (c) floating-rate investments, based on the monthly average rate for 30-day LIBOR. The agreement provides that, from time to time, the Company may request amounts and maturity dates for the other fixed-rate investments (component (b) above) in the IDA portfolio, subject to the approval of the Depository Institutions. For the month of December 2009, the IDA portfolio was comprised of approximately 15% component (a) investments, 75% component (b) investments and 10% component (c) investments.

In the event the fee computation results in a negative amount, the Company must pay the Depository Institutions the negative amount. This effectively results in the Company guaranteeing the Depository Institutions revenue of 25 basis points on the IDA agreement, plus the reimbursement of FDIC insurance premiums. The fee computation under the IDA agreement is affected by many variables, including the type, duration, credit quality, principal balance and yield of the investment portfolio at the Depository Institutions, the prevailing interest rate environment, the amount of client deposits and the yield paid on client deposits. Because a negative IDA fee computation would arise only if there were extraordinary movements in many of these variables, the maximum potential amount of future payments the Company could be required to make under this arrangement cannot be reasonably estimated. Management believes the potential for the fee calculation to result in a negative

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amount is remote and the fair value of the guarantee is not material. Accordingly, no contingent liability is carried on the Condensed Consolidated Balance Sheets for the IDA agreement.

The Company earned fee income associated with the insured deposit account agreement of $155.3 million and $163.2 million for the three months ended December 31, 2009 and 2008, respectively, which is reported as insured deposit account fees on the Condensed Consolidated Statements of Income.

Mutual Fund Agreements

The Company and an affiliate of TD are parties to a sweep fund agreement, transfer agency agreement, shareholder services agreement and a dealer agreement pursuant to which certain mutual funds are made available as money market sweep or direct purchase options to Company clients. The Company performs certain distribution and marketing support services with respect to those funds. In consideration for offering the funds and performing the distribution and marketing support services, an affiliate of TD compensates the Company in accordance with the provisions of the sweep fund agreement. The Company also performs certain services for the applicable fund and earns fees for those services. The agreement may be terminated by any party upon one year s prior written notice and may be terminated by the Company upon 30 days prior written notice under certain circumstances. The Company earned fee income associated with these agreements of $2.8 million and $51.5 million for the three months ended December 31, 2009 and 2008, respectively, which is included in investment product fees on the Condensed Consolidated Statements of Income.

Securities Borrowing and Lending

In connection with its brokerage business, the Company engages in securities borrowing and lending with TD Securities, Inc. (TDSI), an affiliate of TD. Receivable from brokers, dealers and clearing organizations includes $0.6 million of receivables from TDSI as of December 31, 2009 and September 30, 2009. Payable to brokers, dealers and clearing organizations includes $28.0 million and $34.0 million of payables to TDSI as of December 31, 2009 and September 30, 2009, respectively. The Company earned net interest revenue of $0.4 million for the three months ended December 31, 2009 and incurred net interest expense of $0.4 million for the three months ended December 31, 2008 associated with securities borrowing and lending with TDSI. The transactions with TDSI are subject to similar collateral requirements as transactions with other counterparties.

Cash Management Services Agreement

Pursuant to a cash management services agreement, TD Bank USA provides cash management services to clients of TDA Inc. In exchange for such services, the Company pays TD Bank USA service-based fees agreed upon by the parties. The Company incurred expense associated with the cash management services agreement of $0.2 million for the three months ended December 31, 2009 and 2008, which is included in clearing and execution costs on the Condensed Consolidated Statements of Income. The cash management services agreement will continue in effect for as long as the IDA agreement remains in effect, provided that it may be terminated by TDA Inc. without cause upon 60 days prior written notice to TD Bank USA.

Indemnification Agreement for Phantom Stock Plan Liabilities

Pursuant to an indemnification agreement, the Company agreed to assume TD Waterhouse liabilities related to the payout of awards under The Toronto-Dominion Bank 2002 Phantom Stock Incentive Plan following the completion of the TD Waterhouse acquisition. Under this plan, participants were granted units of stock appreciation rights (SARs) based on TD s common stock that generally vest over four years. Upon exercise, the participant receives cash representing the appreciated value of the units between the grant date and the redemption date. In connection with the payout of awards under the 2002 Phantom Stock Incentive Plan, TD Discount Brokerage Holdings LLC (TDDBH), a wholly-owned subsidiary of TD, agreed to indemnify the Company for any liabilities incurred by the Company in excess of the provision for such liability included on the closing date balance sheet of TD Waterhouse. In addition, in the event that the liability incurred by the Company in connection with the 2002 Phantom Stock Incentive Plan is less than the provision for such liability included on the closing date balance sheet of TD Waterhouse, the Company agreed to pay the difference to TDDBH. There were 41,125 and 43,590 SARs outstanding as of December 31, 2009 and September 30, 2009, respectively, with an approximate value of $1.4 million and $1.6 million, respectively. The indemnification agreement effectively protects the Company against fluctuations in TD s common stock price with respect to the SARs, so there will be no net effect on the Company s results of operations resulting from such fluctuations.

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Canadian Call Center Services Agreement

Pursuant to the Canadian call center services agreement, TD receives and services client calls at its London, Ontario site for clients of TDA Inc. After May 1, 2013, either party may terminate this agreement without cause and without penalty by providing 24 months prior written notice. In consideration of the performance by TD of the call center services, the Company pays TD, on a monthly basis, an amount approximately equal to TD s monthly cost. The Company incurred expenses associated with the Canadian call center services agreement of $4.3 million and $3.9 million for the three months ended December 31, 2009 and 2008, respectively, which is included in professional services expense on the Condensed Consolidated Statements of Income.

Certificates of Deposit Brokerage Agreement

TDA, Inc. is party to a certificates of deposit brokerage agreement with TD Bank USA, under which TDA Inc. acts as agent for its clients in purchasing certificates of deposit from TD Bank USA. Under the agreement, TD Bank USA pays TDA Inc. a placement fee for each certificate of deposit issued in an amount agreed to by both parties. During the first quarter of fiscal 2010, TDA Inc. promoted a limited time offer to purchase a three-month TD Bank USA certificate of deposit with a premium yield to clients that made a deposit or transferred $25,000 into their TDA Inc. brokerage account during a specified time period. Under this promotion, TDA Inc. reimburses TD Bank USA for the subsidized portion of the premium yield paid to its clients. The Company incurred net costs to TD Bank USA associated with this promotional offer of $1.0 million for the three months ended December 31, 2009, which is included in advertising expense on the Condensed Consolidated Statements of Income.

Sale of thinkorswim Canada, Inc. and Trading Platform Hosting and Services Agreement

On June 11, 2009, immediately following the closing of the thinkorswim acquisition, the Company completed the sale of thinkorswim Canada, Inc. (thinkorswim Canada) to TD Waterhouse Canada Inc. (TDW Canada), a wholly-owned subsidiary of TD, for cash equal to the total tangible equity of thinkorswim Canada immediately prior to the closing of the transaction. The Company received gross proceeds from the sale of approximately $1.7 million. The Company did not recognize a gain or loss on the sale of thinkorswim Canada.

In connection with the sale of thinkorswim Canada, the Company and TDW Canada entered into a trading platform hosting and services agreement. The agreement has an initial term of five years beginning June 11, 2009, and will automatically renew for additional periods of two years, unless either party provides notice of non-renewal to the other party at least 90 days prior to the end of the then-current term. Because this agreement represents contingent consideration to be paid for the sale of thinkorswim Canada, the Company recorded a $10.7 million receivable for the fair value of this agreement. Under this agreement, TDW Canada will use the thinkorswim, Inc. trading platform and thinkorswim, Inc. will provide the services to support the platform. In consideration for the performance by thinkorswim, Inc. of all its obligations under this agreement, TDW Canada will pay thinkorswim, Inc., on a monthly basis, a fee based on average client trades per day and transactional revenues. Fees earned under the agreement will be recorded as a reduction of the contingent consideration receivable until the receivable is reduced to zero, and thereafter will be recorded as fee revenue. As of December 31, 2009 and September 30, 2009, $10.2 million and $10.4 million, respectively, of contingent consideration is included in receivable from affiliates on the Condensed Consolidated Balance Sheets.

Other Related Party Transactions

TD Options LLC, a subsidiary of TD, pays the Company the amount of exchange-sponsored payment for order flow that it receives for routing TDA Inc. client orders to the exchanges. The Company earned $0.5 million and $0.7 million of payment for order flow revenues from TD Options LLC for the three months ended December 31, 2009 and 2008, respectively, which is included in commissions and transaction fees on the Condensed Consolidated Statements of Income.

TD Securities (USA) LLC, an indirect wholly-owned subsidiary of TD, was the joint lead manager and participated as an underwriter in the Company s offering of $1.25 billion of Senior Notes in November 2009. In this capacity, TD Securities (USA) LLC earned a discount and commission of $0.5 million. This amount is being accounted for as part of the debt issuance costs included in other assets on the Condensed Consolidated Balance Sheets and is being amortized to interest expense over the terms of the respective Senior Notes.

Except as otherwise indicated, receivables from and payables to TD and affiliates of TD resulting from the related party transactions described above are included in receivable from affiliates and payable to affiliates, respectively, on the Condensed Consolidated Balance Sheets. Receivables from and payables to TD affiliates resulting from client cash sweep activity are generally settled in cash the next business day. Other receivables from and payables to affiliates of TD are generally settled in cash on a monthly basis.

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

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto included in the Company s annual report on Form 10-K for the fiscal year ended September 30, 2009, and the Condensed Consolidated Financial Statements and Notes thereto contained in this quarterly report on Form 10-Q.

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, expect, anticipate, plan, estimate, target, similar expressions. In particular, forward-looking statements contained in this discussion include our expectations regarding: the effect of client trading activity on our results of operations; the effect of changes in interest rates on our net interest spread; our migration of client cash balances into the insured deposit account offering; our effective income tax rate; our capital and liquidity needs and our plans to finance such needs; and the impact of recently issued accounting pronouncements.

The Company s actual results could differ materially from those anticipated in such forward-looking statements. Important factors that may cause such differences include, but are not limited to: general economic and political conditions; interest rates; stock market fluctuations and changes in client trading activity; increased competition; systems failures and capacity constraints; network security risks; ability to service debt obligations; ability to achieve the benefits of the thinkorswim Group Inc. (thinkorswim) acquisition; regulatory and legal matters and uncertainties and the other risks and uncertainties set forth under Item 1A. Risk Factors of the Company s annual report on Form 10-K for the fiscal year ended September 30, 2009. The forward-looking statements contained in this report speak only as of the date on which the statements were made. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise.

The preparation of our financial statements requires us to make judgments and estimates that may have a significant impact upon our financial results. Note 1 of our Notes to Consolidated Financial Statements for the fiscal year ended September 30, 2009, contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions. We believe that the following areas are particularly subject to management s judgments and estimates and could materially affect our results of operations and financial position: valuation of goodwill and acquired intangible assets; valuation of stock-based compensation; estimates of effective income tax rates, deferred income taxes and related valuation allowances; and valuation of guarantees. These areas are discussed in further detail under the heading Critical Accounting Policies and Estimates in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2009.

Unless otherwise indicated, the terms we, us or Company in this report refer to TD AMERITRADE Holding Corporation and its wholly-owned subsidiaries. The term GAAP refers to U.S. generally accepted accounting principles.

GLOSSARY OF TERMS

In discussing and analyzing our business, we utilize several metrics and other terms that are defined in a Glossary of Terms that is available on our website at www.amtd.com (in the Investors section under the heading Financial Reports) and is included in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2009. Since the issuance of the Form 10-K, the definition of EBITDA and EBITDA excluding investment gains/losses has been updated and the definition of Expenses excluding advertising has been replaced with Operating expenses excluding advertising. These updated definitions are as follows (*italics* indicate other defined terms that appear elsewhere in the glossary):

EBITDA and EBITDA excluding investment gains/losses EBITDA (earnings before interest, taxes, depreciation and amortization) and EBITDA excluding investment gains/losses are non-GAAP financial measures. We consider EBITDA and EBITDA excluding investment gains/losses to be important measures of our financial performance a