

TD AMERITRADE HOLDING CORP

Form 10-Q

May 06, 2010

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

**FORM 10-Q**

(Mark One)

- ☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2010**
- OR**
- ☐ **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**  
(State or other jurisdiction of  
incorporation or organization)

**82-0543156**  
(I.R.S. Employer  
Identification Number)

**4211 South 102<sup>nd</sup> Street, Omaha, Nebraska, 68127**  
(Address of principal executive offices) (Zip Code)  
**(402) 331-7856**  
(Registrant's telephone number, including area code)

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 ☒ No ☐

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 ☐ No ☐

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 ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting  
company ☐

(Do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒  
As of April 30, 2010, there were 590,412,316 outstanding shares of the registrant's common stock.

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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 March 31, 2010, and the related condensed consolidated statements of income for the three-month and six-month periods ended March 31, 2010 and 2009, and condensed consolidated statements of cash flows for the six-month periods ended March 31, 2010 and 2009. 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

May 6, 2010

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**TD AMERITRADE HOLDING CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share amounts)

|  | <b>March 31,<br/>2010<br/>(Unaudited)</b> | <b>September<br/>30,<br/>2009</b> |
|--|---|-----------------------------------|
| <b>ASSETS</b>  |   |                                   |
| Cash and cash equivalents  | \$ 833,580                                | \$ 791,211                        |
| Short-term investments   | 1,095                                     | 52,071                            |
| Cash and investments segregated in compliance with federal regulations   | 1,549,430                                 | 5,813,862                         |
| Receivable from brokers, dealers and clearing organizations  | 1,465,208                                 | 1,777,741                         |
| Receivable from clients net of allowance for doubtful accounts   | 6,860,274                                 | 5,712,261                         |
| Receivable from affiliates   | 97,700                                    | 92,974                            |
| Other receivables net of allowance for doubtful accounts   | 69,781                                    | 73,921                            |
| Securities owned, at fair value  | 294,585                                   | 23,405                            |
| Property and equipment net of accumulated depreciation and amortization  | 252,119                                   | 238,256                           |
| Goodwill   | 2,466,133                                 | 2,472,098                         |
| Acquired intangible assets net of accumulated amortization   | 1,174,119                                 | 1,224,722                         |
| Deferred income taxes  | 13,747                                    | 17,161                            |
| Other assets   | 112,294                                   | 82,127                            |
| <br>Total assets   | <br>\$ 15,190,065                         | <br>\$ 18,371,810                 |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |   |                                   |
| Liabilities:   |   |                                   |
| Payable to brokers, dealers and clearing organizations   | \$ 2,236,407                              | \$ 2,491,617                      |
| Payable to clients   | 6,848,986                                 | 9,914,823                         |
| Accounts payable and accrued liabilities   | 480,407                                   | 700,786                           |
| Payable to affiliates  | 3,761                                     | 3,724                             |
| Deferred revenue   | 77,263                                    | 72,134                            |
| Long-term debt   | 1,267,763                                 | 1,414,900                         |
| Capitalized lease obligations  | 25,865                                    | 28,565                            |
| Deferred income taxes  | 369,236                                   | 193,978                           |
| <br>Total liabilities  | <br>11,309,688                            | <br>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; March 31, 2010 - 589,896,705 outstanding; September 30, 2009 - 587,109,497 outstanding | 6,314                                     | 6,314                             |

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|  |                   |                   |
|--|-------------------|-------------------|
| Additional paid-in capital   | 1,555,014         | 1,574,638         |
| Retained earnings  | 2,828,907         | 2,530,117         |
| Treasury stock, common, at cost    March 31, 2010 - 41,485,155 shares;<br>September 30, 2009 - 44,272,363 shares | (510,011)         | (559,883)         |
| Deferred compensation  | 196               | 171               |
| Accumulated other comprehensive loss   | (43)              | (74)              |
| <br>Total stockholders' equity   | <br>3,880,377     | <br>3,551,283     |
| <br>Total liabilities and stockholders' equity   | <br>\$ 15,190,065 | <br>\$ 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)

|   | <b>Three Months Ended March<br/>31,</b> |             | <b>Six Months Ended March<br/>31,</b> |             |
|---|---|-------------|---------------------------------------|-------------|
|   | <b>2010</b>                             | <b>2009</b> | <b>2010</b>                           | <b>2009</b> |
| Revenues:   |   |             |                                       |             |
| Transaction-based revenues:                       |   |             |                                       |             |
| Commissions and transaction fees                  | \$ 301,272                              | \$ 265,442  | \$ 610,660                            | \$ 552,555  |
| Asset-based revenues:                             |   |             |                                       |             |
| Interest revenue                                  | 101,412                                 | 70,242      | 202,652                               | 162,756     |
| Brokerage interest expense                        | (1,444)                                 | (2,837)     | (3,271)                               | (10,512)    |
| Net interest revenue                              | 99,968                                  | 67,405      | 199,381                               | 152,244     |
| Insured deposit account fees                      | 169,963                                 | 136,537     | 325,295                               | 299,767     |
| Investment product fees                           | 30,349                                  | 48,096      | 59,769                                | 117,262     |
| Total asset-based revenues                        | 300,280                                 | 252,038     | 584,445                               | 569,273     |
| Other revenues                                    | 33,882                                  | 8,019       | 64,947                                | 14,400      |
| Net revenues                                      | 635,434                                 | 525,499     | 1,260,052                             | 1,136,228   |
| Operating expenses:                               |   |             |                                       |             |
| Employee compensation and benefits                | 164,876                                 | 120,808     | 311,515                               | 238,197     |
| Clearing and execution costs                      | 24,131                                  | 15,077      | 46,035                                | 30,705      |
| Communications                                    | 24,641                                  | 17,853      | 49,300                                | 36,598      |
| Occupancy and equipment costs                     | 33,843                                  | 29,536      | 68,733                                | 59,663      |
| Depreciation and amortization                     | 13,463                                  | 10,635      | 27,073                                | 22,138      |
| Amortization of acquired intangible assets        | 25,024                                  | 15,200      | 50,603                                | 30,738      |
| Professional services                             | 31,465                                  | 22,069      | 65,172                                | 49,408      |
| Advertising                                       | 71,570                                  | 53,097      | 136,763                               | 99,794      |
| Gains on money market funds and client guarantees | (1,936)                                 |             | (1,936)                               |             |
| Other   | 20,892                                  | 8,720       | 38,926                                | 20,284      |
| Total operating expenses                          | 407,969                                 | 292,995     | 792,184                               | 587,525     |
| Operating income                                  | 227,465                                 | 232,504     | 467,868                               | 548,703     |
| Other expense:                                    |   |             |                                       |             |
| Interest on borrowings                            | 10,937                                  | 8,244       | 22,567                                | 23,881      |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Loss on debt refinancing                    |            |            | 8,392      |            |
| Total other expense                         | 10,937     | 8,244      | 30,959     | 23,881     |
| Pre-tax income                              | 216,528    | 224,260    | 436,909    | 524,822    |
| Provision for income taxes                  | 53,976     | 92,230     | 138,119    | 208,394    |
| Net income                                  | \$ 162,552 | \$ 132,030 | \$ 298,790 | \$ 316,428 |
| Earnings per share basic                    | \$ 0.28    | \$ 0.23    | \$ 0.51    | \$ 0.54    |
| Earnings per share diluted                  | \$ 0.27    | \$ 0.23    | \$ 0.50    | \$ 0.54    |
| Weighted average shares outstanding basic   | 589,618    | 573,519    | 588,721    | 582,734    |
| Weighted average shares outstanding diluted | 596,390    | 581,284    | 596,008    | 591,048    |

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)

|   | <b>Six Months Ended March 31,</b> |             |
|---|-----------------------------------|-------------|
|   | <b>2010</b>                       | <b>2009</b> |
| Cash flows from operating activities:   |                                   |             |
| Net income  | \$ 298,790                        | \$ 316,428  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                   |             |
| Depreciation and amortization   | 27,073                            | 22,138      |
| Amortization of acquired intangible assets  | 50,603                            | 30,738      |
| Deferred income taxes   | 174,039                           | (118,645)   |
| Loss on disposal of property  | 1,850                             | 1,698       |
| Gains on money market funds and client guarantees                                 | (1,936)                           |             |
| Loss on debt refinancing  | 8,392                             |             |
| Stock-based compensation  | 17,504                            | 12,041      |
| Excess tax benefits on stock-based compensation                                   | (8,414)                           | (503)       |
| Other, net  | (821)                             | 64          |
| Changes in operating assets and liabilities:                                      |                                   |             |
| Cash and investments segregated in compliance with federal regulations            | 4,264,432                         | (2,718,441) |
| Receivable from brokers, dealers and clearing organizations                       | 312,533                           | 2,098,252   |
| Receivable from clients, net  | (1,148,013)                       | 3,464,408   |
| Receivable from/payable to affiliates, net  | (5,662)                           | 86,340      |
| Other receivables, net  | 4,077                             | 23,516      |
| Securities owned  | (270,271)                         | 31,744      |
| Other assets  | (13,037)                          | (10,308)    |
| Payable to brokers, dealers and clearing organizations                            | (255,210)                         | (3,379,504) |
| Payable to clients  | (3,065,837)                       | 635,050     |
| Accounts payable and accrued liabilities  | (198,358)                         | 124,587     |
| Deferred revenue  | 5,129                             | (1,501)     |
| <br>Net cash provided by operating activities                                     | <br>196,863                       | <br>618,102 |
| <br>Cash flows from investing activities:   |                                   |             |
| Purchase of property and equipment  | (38,391)                          | (25,259)    |
| Purchase of short-term investments  | (2,200)                           |             |
| Proceeds from sale and maturity of short-term investments                         | 2,200                             |             |
| Proceeds from redemption of money market funds                                    | 51,478                            | 290,347     |
| Proceeds from sale of other investments available-for-sale                        |                                   | 1,180       |
| Other   | (2)                               | (146)       |
| <br>Net cash provided by investing activities                                     | <br>13,085                        | <br>266,122 |

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)

|  | <b>Six Months Ended March 31,</b> | <b>2010</b> | <b>2009</b>  |
|--|-----------------------------------|-------------|--------------|
| Cash flows from financing activities:  |                                   |             |              |
| Proceeds from issuance of long-term debt   | \$ 1,248,557                      | \$          |              |
| Payment of debt issuance costs   | (10,664)                          |             |              |
| Principal payments on long-term debt   | (1,410,638)                       |             | (18,750)     |
| Principal payments on capital lease obligations  | (7,095)                           |             | (2,169)      |
| Proceeds from exercise of stock options; Six months ended March 31, 2010 - 2,482,271 shares; 2009 - 169,013 shares | 8,260                             |             | 816          |
| Purchase of treasury stock; Six months ended March 31, 2010 - 224,595 shares; 2009 - 38,988,200 shares             | (4,450)                           |             | (465,403)    |
| Excess tax benefits on stock-based compensation  | 8,414                             |             | 503          |
| Net cash used in financing activities  | (167,616)                         |             | (485,003)    |
| Effect of exchange rate changes on cash and cash equivalents   | 37                                |             | (714)        |
| Net increase in cash and cash equivalents  | 42,369                            |             | 398,507      |
| Cash and cash equivalents at beginning of period   | 791,211                           |             | 674,135      |
| Cash and cash equivalents at end of period   | \$ 833,580                        |             | \$ 1,072,642 |
| Supplemental cash flow information:  |                                   |             |              |
| Interest paid  | \$ 11,601                         |             | \$ 41,391    |
| Income taxes paid  | \$ 103,331                        |             | \$ 112,328   |
| Tax benefit on exercises and distributions of stock-based compensation   | \$ 12,680                         |             | \$ 516       |
| Noncash investing and financing activities:  |                                   |             |              |
| Issuance of capital lease obligations  | \$ 4,395                          |             | \$ 4,443     |
| Issuance of long-term debt in exchange for assets acquired   | \$                                |             | \$ 8,400     |

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 and Six-Month Periods Ended March 31, 2010 and 2009**  
**(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. 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 and ASU 2010-06** 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. In January 2010, the Company adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires new disclosures and clarifies existing disclosure requirements about fair value measurements as set forth in ASC 820-10. The adoption of ASC 820-10 and ASU 2010-06 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 six months ended March 31, 2010 (dollars in thousands):

|   |              |
|---|--------------|
| Balance as of September 30, 2009                                    | \$ 2,472,098 |
| Purchase accounting adjustments, net of income taxes <sup>(1)</sup> | (1,699)      |
| Tax benefit on stock-based compensation awards <sup>(2)</sup>       | (4,266)      |
| Balance as of March 31, 2010  | \$ 2,466,133 |

(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 March 31, 2010 (dollars in thousands):

|                           | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> |
|---------------------------|--------------------------------------|-------------------------------------|------------------------------------|
| Client relationships      | \$ 1,230,469                         | \$ (300,854)                        | \$ 929,615                         |
| Technology and content    | 100,904                              | (11,836)                            | 89,068                             |
| Trade names               | 10,100                               | (4,351)                             | 5,749                              |
| Non-competition agreement | 5,486                                | (1,473)                             | 4,013                              |
| Trademark license         | 145,674                              |                                     | 145,674                            |
|                           | <b>\$ 1,492,633</b>                  | <b>\$ (318,514)</b>                 | <b>\$ 1,174,119</b>                |

Estimated future amortization expense for acquired intangible assets outstanding as of March 31, 2010 is as follows (dollars in thousands):

| <b>Fiscal Year</b>   | <b>Estimated<br/>Amortization<br/>Expense</b> |
|----------------------|---|
| 2010 Remaining       | \$ 49,725                                     |
| 2011                 | 96,721  |
| 2012                 | 92,900  |
| 2013                 | 91,630  |
| 2014                 | 91,172  |
| 2015                 | 90,290  |
| Thereafter (to 2025) | 516,007                                       |
| <b>Total</b>         | <b>\$ 1,028,445</b>                           |

**3. CASH AND CASH EQUIVALENTS**

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

|                                  | <b>March 31,<br/>2010</b> | <b>September<br/>30,<br/>2009</b> |
|----------------------------------|---------------------------|-----------------------------------|
| Corporate                        | \$ 284,519                | \$ 273,137                        |
| Broker-dealer subsidiaries       | 443,329                   | 473,996                           |
| Trust company subsidiary         | 82,331                    | 25,143                            |
| Investment advisory subsidiaries | 23,401                    | 18,935                            |
| <b>Total</b>                     | <b>\$ 833,580</b>         | <b>\$ 791,211</b>                 |

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. INCOME TAXES**

The Company's effective income tax rate for the six months ended March 31, 2010 was 31.6%, compared to 39.7% for the six months ended March 31, 2009. The provision for income taxes for the six months ended March 31, 2010 was unusually low due to \$28.8 million of favorable resolutions of certain federal and state income tax matters. These

items favorably impacted the Company's earnings for the six months ended March 31, 2010 by approximately \$0.05 per share. The provision for income taxes for the six months ended March 31, 2009 was higher than normal due to unfavorable deferred income tax adjustments of \$5.9 million resulting from state income tax law changes and capital loss limitations on certain money market mutual fund holdings. These items unfavorably impacted the Company's earnings for the six months ended March 31, 2009 by approximately \$0.01 per share.

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

|   | <b>March 31,<br/>2010</b> | <b>September<br/>30,<br/>2009</b> |
|---|---------------------------|-----------------------------------|
| \$250 million 2.950% Senior Notes due 2012 <sup>(1)</sup> | \$ 253,702                | \$                                |
| \$500 million 4.150% Senior Notes due 2014 <sup>(2)</sup> | 510,465                   |                                   |
| \$500 million 5.600% Senior Notes due 2019 <sup>(3)</sup> | 499,334                   |                                   |
| Term A Facility   |                           | 140,625                           |
| Term B Facility   |                           | 1,265,875                         |
| Other   | 4,262                     | 8,400                             |
| <b>Total long-term debt</b>                               | <b>\$ 1,267,763</b>       | <b>\$ 1,414,900</b>               |

(1) Balance includes a \$3.9 million unrealized loss related to an interest rate swap, and is net of unamortized discount of \$0.2 million.

(2) Balance includes a \$10.9 million unrealized loss related to an interest rate swap, and is net of unamortized discount of \$0.4 million.

(3) Balance is net of unamortized discount of \$0.7 million.

Fiscal year maturities on long-term debt outstanding at March 31, 2010 are as follows (dollars in thousands):

|                |         |
|----------------|---------|
| 2010 Remaining | \$      |
| 2011           | 4,262   |
| 2012           |         |
| 2013           | 250,000 |
| 2014           |         |

|            |              |
|------------|--------------|
| 2015       | 500,000      |
| Thereafter | 500,000      |
| Total      | \$ 1,254,262 |

*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.

On November 25, 2009, 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. 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 TDAOH are the general senior unsecured obligations of the Company and TDAOH.

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, 30 basis points in the case of the 2014 Notes and 35 basis points in the case of the 2019 Notes, plus, in each case, accrued and unpaid interest to the date of redemption.

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**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. For the six months ended March 31, 2010, the Company recorded a \$14.9 million gain for the change in fair value of the interest rate swaps and an offsetting \$14.9 million fair value loss on the hedged fixed-rate debt. The offsetting fair value gains and losses were recorded in interest on borrowings on the Condensed Consolidated Statements of Income.

The following table summarizes the fair value of outstanding derivatives designated as hedging instruments on the Condensed Consolidated Balance Sheets (dollars in thousands):

|  | <b>March 31,<br/>2010</b> | <b>September<br/>30,<br/>2009</b> |
|--|---------------------------|-----------------------------------|
| Derivatives recorded under the caption Other assets: |                           |                                   |
| Interest rate swap assets                            | \$ 14,856                 | \$                                |

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. As of March 31, 2010, the Company had possession of \$15.1 million of collateral from the interest rate swap counterparty, in the form of U.S. Treasury securities.

**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 March 31, 2010, 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 March 31, 2010.

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

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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 March 31, 2010.

**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 March 31, 2010 and September 30, 2009. The broker-dealer subsidiaries also had access to unsecured uncommitted credit facilities of up to \$150 million as of March 31, 2010 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 March 31, 2010 and September 30, 2009. As of March 31, 2010 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.

**6. 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):

|                                 | March 31, 2010 |                                       |                          | September 30, 2009 |                                       |                          |
|---------------------------------|----------------|---------------------------------------|--------------------------|--------------------|---------------------------------------|--------------------------|
|                                 | Net<br>Capital | Minimum<br>Net<br>Capital<br>Required | Excess<br>Net<br>Capital | Net<br>Capital     | Minimum<br>Net<br>Capital<br>Required | Excess<br>Net<br>Capital |
| TD AMERITRADE<br>Clearing, Inc. | \$ 970,170     | \$ 164,399                            | \$ 805,771               | \$ 855,630         | \$ 137,943                            | \$ 717,687               |
| TD AMERITRADE,<br>Inc.          | 286,093        | 1,000                                 | 285,093                  | 263,957            | 500                                   | 263,457                  |
| thinkorswim, Inc.               | 68,456         | 1,746                                 | 66,710                   | 43,677             | 2,376                                 | 41,301                   |
| Totals                          | \$ 1,324,719   | \$ 167,145                            | \$ 1,157,574             | \$ 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 \$13.1 million and \$14.7 million as of March 31, 2010 and September 30, 2009, respectively, which exceeded the required Tier 1 capital by \$3.1 million and \$4.7 million, respectively.

**7. 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. 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. The parties participated in a mediation on April 7, 2010 and discussed possible terms of a new settlement. The settlement

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discussions are continuing. The Company is unable to predict the outcome or the timing of the ultimate resolution of this matter, or the eventual loss that may result from this matter.

**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, at par, 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 did not extend to clients who purchased ARS through independent registered investment advisors or through another firm and transferred such securities to TDA Inc. 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. agreed to 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. The final phase of the offer expired on March 23, 2010 and TDA Inc. completed the repurchases on March 30, 2010. Through March 31, 2010, TDA Inc. purchased eligible ARS with an aggregate par value of approximately \$305 million. The Company accounted 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 September 30, 2009, a liability of \$13.8 million for this guarantee was included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets. There is no liability recorded on the Condensed Consolidated Balance Sheet as of March 31, 2010, due to the completion of the offer. On March 30, 2010, the Company recorded a gain of \$0.5 million based on the final fulfillment of the guarantee. The gain is included in gains on money market funds and client guarantees on the Condensed Consolidated Statements of Income. As of March 31, 2010, TDA Inc. held ARS with a fair value of approximately \$288 million.

**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 held shares in these funds, which are being liquidated by The Reserve. 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. Through March 31, 2010, Reserve Yield Plus Fund shareholders have received distributions totaling approximately \$0.94 per share. The Company is unable to predict the outcome or the timing of the ultimate resolution of this matter, or the potential loss, if any, that may result from this matter.

**Other Legal and Regulatory Matters** The Company is subject to other lawsuits, arbitrations, claims and other legal proceedings in connection with its business. Some of these 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 these 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 potential losses, if any, that may result from these matters.

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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 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 potential fines, penalties or injunctive or other equitable relief, if any, 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 Group, Inc. ( 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.

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 March 31, 2010, client excess margin securities of approximately \$9.5 billion and stock borrowings of approximately \$1.3 billion were available to the Company to utilize as collateral on various borrowings or for other

purposes. The Company had loaned approximately \$2.2 billion and repledged approximately \$1.0 billion of that collateral as of March 31, 2010.

*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

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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 11 for a description of a guarantee included in that agreement.

See Auction Rate Securities Matters above in this Note 7 for a description of a guarantee that was 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 were to receive less than \$1.00 per share for these funds upon an orderly liquidation, the Company committed 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 accrued an estimated fair value of \$27.0 million for this obligation as of September 30, 2009, which is included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets. From October 31, 2008 through January 29, 2010, the Primary Fund and the International Liquidity Fund shareholders had received distributions totaling approximately \$0.99 per share and \$0.86 per share, respectively. In February 2010, the Company fulfilled the guarantee obligation to its clients by paying them for the difference between par value and the distributions to date from these two funds, in exchange for the clients' shares in the funds. The Company recorded a gain of \$0.9 million based on the final fulfillment of the guarantee. The gain is included in gains on money market funds and client guarantees on the Condensed Consolidated Statements of Income.

*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.

## **8. 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 financial instruments.

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 March 31, 2010 and September 30, 2009 (dollars in thousands):

|  |   | As of March 31, 2010 |           |            |            |
|--|---|----------------------|-----------|------------|------------|
|  |   | Level 1              | Level 2   | Level 3    | Fair Value |
| <b>Assets:</b>                         |   |                      |           |            |            |
| Short-term investments:                |   |                      |           |            |            |
| U.S. government agency debt securities |   | \$                   | \$ 1,095  | \$         | \$ 1,095   |
| Securities owned:                      |   |                      |           |            |            |
| Auction rate securities                |   |                      |           | 288,489    | 288,489    |
| Money market mutual funds              |   |                      |           | 3,873      | 3,873      |
| Equity securities                      |   | 459                  | 7         |            | 466        |
| Municipal debt securities              |   |                      | 568       |            | 568        |
| Corporate debt securities              |   |                      | 1,093     |            | 1,093      |
| Other debt securities                  |   |                      | 96        |            | 96         |
| Subtotal                               | Securities owned                                  | 459                  | 1,764     | 292,362    | 294,585    |
| Other assets:                          |   |                      |           |            |            |
| Interest rate swaps <sup>(1)</sup>     |   |                      | 14,856    |            | 14,856     |
| Total assets at fair value             |   | \$ 459               | \$ 17,715 | \$ 292,362 | \$ 310,536 |
| <b>Liabilities:</b>                    |   |                      |           |            |            |
| Securities sold, not yet purchased:    |   |                      |           |            |            |
| Equity securities                      |   | \$ 2,848             | \$        | \$         | \$ 2,848   |
| Municipal debt securities              |   |                      | 73        |            | 73         |
| Other debt securities                  |   |                      | 196       |            | 196        |
| Total                                  | Securities sold, not yet purchased <sup>(2)</sup> | \$ 2,848             | \$ 269    | \$         | \$ 3,117   |

(1) Amount is included in other assets on the Condensed Consolidated Balance Sheets. See Interest Rate Swaps in Note 5 for details.

(2) Amounts are included in accounts

payable and  
accrued  
liabilities on the  
Condensed  
Consolidated  
Balance Sheets.

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| <b>As of September 30, 2009</b>                         |                    |                |                |                   |
|---|--------------------|----------------|----------------|-------------------|
|   | <b>Level<br/>1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Fair Value</b> |
| <b>Assets:</b>  |                    |                |                |                   |
| Short-term investments:                                 |                    |                |                |                   |
| Money market mutual funds                               | \$                 | \$             | \$ 50,971      | \$ 50,971         |
| U.S. government agency 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         |
| <b>Liabilities:</b>                                     |                    |                |                |                   |
| 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 <sup>(1)</sup> | \$ 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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There were no transfers between levels of the fair value hierarchy during the periods presented in the tables below. The following tables present the changes in Level 3 assets and liabilities measured on a recurring basis for the three months and six months ended March 31, 2010 and 2009 (dollars in thousands):

| <b>Three Months Ended March 31, 2010</b> |                                   |   |   |                               |
|--|-----------------------------------|---|---|-------------------------------|
|  | <b>December<br/>31,<br/>2009</b>  | <b>Gains<br/>Included<br/>in<br/>Earnings</b> | <b>Purchases,<br/>Sales,<br/>Issuances and<br/>Settlements,<br/>Net</b> | <b>March<br/>31,<br/>2010</b> |
| <b>Assets:</b>                           |                                   |   |   |                               |
| Short-term investments:                  |                                   |   |   |                               |
| Money market mutual funds                | \$ 39,377                         | \$ 507 <sup>(1)</sup>                         | \$ (39,884)   | \$                            |
| Securities owned:                        |                                   |   |   |                               |
| Auction rate securities                  | 266,657                           | 538 <sup>(2)</sup>                            | 21,294  | 288,489                       |
| Money market mutual funds                | 4,607                             |   | (734)   | 3,873                         |
| Subtotal Securities owned                | 271,264                           | 538   | 20,560  | 292,362                       |
| Total assets at fair value               | \$ 310,641                        | \$ 1,045                                      | \$ (19,324)   | \$ 292,362                    |
| <b>Six Months Ended March 31, 2010</b>   |                                   |   |   |                               |
|  | <b>September<br/>30,<br/>2009</b> | <b>Gains<br/>Included<br/>in<br/>Earnings</b> | <b>Purchases,<br/>Sales,<br/>Issuances and<br/>Settlements,<br/>Net</b> | <b>March 31,<br/>2010</b>     |
| <b>Assets:</b>                           |                                   |   |   |                               |
| Short-term investments:                  |                                   |   |   |                               |
| Money market mutual funds                | \$ 50,971                         | \$ 507 <sup>(1)</sup>                         | \$ (51,478)   | \$                            |
| Securities owned:                        |                                   |   |   |                               |
| Auction rate securities                  | 14,579                            | 909 <sup>(2)</sup>                            | 273,001   | 288,489                       |
| Money market mutual funds                | 5,049                             |   | (1,176)   | 3,873                         |
| Subtotal Securities owned                | 19,628                            | 909   | 271,825   | 292,362                       |
| Total assets at fair value               | \$ 70,599                         | \$ 1,416                                      | \$ 220,347  | \$ 292,362                    |

(1) Gains on money market mutual funds relate to

shares of The Reserve Primary Fund that the Company continues to hold as of March 31, 2010, which are carried at a fair value of zero as of that date. These gains are included in gains on money market funds and client guarantees on the Condensed Consolidated Statements of Income.

- (2) Gains on auction rate securities are recorded in other revenues on the Condensed Consolidated Statements of Income and do not relate to assets held as of March 31, 2010.

**Table of Contents****Three Months Ended March 31, 2009**

|                                     | <b>December<br/>31,<br/><br/>2008</b> | <b>Gains<br/>Included<br/>in<br/><br/>Earnings</b> | <b>Purchases,<br/>Sales,<br/><br/>Issuances and<br/>Settlements,<br/>Net</b> | <b>March 31,<br/><br/>2009</b> |
|-------------------------------------|---------------------------------------|--|--|--------------------------------|
| <b>Assets:</b>                      |                                       |  |  |                                |
| Short-term investments:             |                                       |  |  |                                |
| Money market mutual funds           | \$ 117,051                            | \$ 1   | \$ (39,413)  | \$ 77,639                      |
| Securities owned:                   |                                       |  |  |                                |
| Auction rate securities             | 16,275                                |  | 1,650  | 17,925                         |
| Money market mutual funds           | 11,614                                |  | (5,766)  | 5,848                          |
| Subtotal Securities owned           | 27,889                                |  | (4,116)  | 23,773                         |
| Other investments:                  |                                       |  |  |                                |
| Auction rate securities             | 9,860                                 |  | (1,040)  | 8,820                          |
| Total assets at fair value          | \$ 154,800                            | \$ 1   | \$ (44,569)  | \$ 110,232                     |
| <b>Liabilities:</b>                 |                                       |  |  |                                |
| Securities sold, not yet purchased: |                                       |  |  |                                |
| Money market mutual funds           | \$ 224                                | \$   | \$ (224)   | \$                             |

**Six Months Ended March 31, 2009**

|  | <b>October<br/>1,<br/><br/>2008</b> | <b>Losses<br/>Included<br/>in<br/><br/>Earnings</b> | <b>Purchases,<br/>Sales,<br/><br/>Issuances and<br/>Settlements,<br/>Net</b> | <b>March 31,<br/><br/>2009</b> |
|--|-------------------------------------|---|--|--------------------------------|
| <b>Assets:</b>                           |                                     |   |  |                                |
| Cash and cash equivalents <sup>(1)</sup> | \$ 217,471                          | \$  | \$ (217,471)   | \$                             |
| Short-term investments:                  |                                     |   |  |                                |
| Money market mutual funds                | 368,066                             | (80)  | (290,347)  | 77,639                         |
| Securities owned:                        |                                     |   |  |                                |
| Auction rate securities                  | 6,925                               |   | 11,000   | 17,925                         |
| Money market mutual funds                | 46,662                              |   | (40,814)   | 5,848                          |
| Subtotal Securities owned                | 53,587                              |   | (29,814)   | 23,773                         |

## Other investments:

|                         |        |  |         |       |
|-------------------------|--------|--|---------|-------|
| Auction rate securities | 10,000 |  | (1,180) | 8,820 |
|-------------------------|--------|--|---------|-------|

|                            |            |         |              |            |
|----------------------------|------------|---------|--------------|------------|
| Total assets at fair value | \$ 649,124 | \$ (80) | \$ (538,812) | \$ 110,232 |
|----------------------------|------------|---------|--------------|------------|

**Liabilities:**

## Securities sold, not yet purchased:

|                           |          |    |            |    |
|---------------------------|----------|----|------------|----|
| Money market mutual funds | \$ 4,636 | \$ | \$ (4,636) | \$ |
|---------------------------|----------|----|------------|----|

(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 six months ended March 31, 2010.

***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 assets and liabilities. If quoted prices in active markets for identical assets and liabilities are not available to determine fair value, then the Company uses quoted prices

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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 assets and liabilities.

**Level 2 Measurements:**

*Debt Securities* The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

*Interest Rate Swaps* These derivatives are valued using a model that relies on interest rate yield curves, which are observable for substantially the full term of the contract. The valuation technique underlying the model is widely accepted in the financial services industry and does not involve significant judgment.

**Level 3 Measurements:**

*Money Market Mutual Funds* The fair value of positions in money market mutual funds managed by The Reserve is estimated by management based on the underlying portfolio holdings data published by The Reserve.

*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. 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 March 31, 2010, the Company's Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately \$1.27 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.

**9. 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):

|   | <b>Three Months Ended March<br/>31,</b> |             | <b>Six Months Ended March<br/>31,</b> |             |
|---|---|-------------|---------------------------------------|-------------|
|   | <b>2010</b>                             | <b>2009</b> | <b>2010</b>                           | <b>2009</b> |
| Net income                                    | \$ 162,552                              | \$ 132,030  | \$ 298,790                            | \$ 316,428  |
| Weighted average shares outstanding - basic   | 589,618                                 | 573,519     | 588,721                               | 582,734     |
| Effect of dilutive securities:                |   |             |                                       |             |
| Stock options                                 | 4,369                                   | 6,165       | 5,012                                 | 6,199       |
| Restricted stock units                        | 2,310                                   | 1,496       | 2,173                                 | 2,024       |
| Deferred compensation shares                  | 93                                      | 104         | 102                                   | 91          |
| Weighted average shares outstanding - diluted | 596,390                                 | 581,284     | 596,008                               | 591,048     |
| Earnings per share - basic                    | \$ 0.28                                 | \$ 0.23     | \$ 0.51                               | \$ 0.54     |
| Earnings per share - diluted                  | \$ 0.27                                 | \$ 0.23     | \$ 0.50                               | \$ 0.54     |

**Table of Contents****10. COMPREHENSIVE INCOME**

Comprehensive income is as follows (dollars in thousands):

|  | <b>Three Months Ended March<br/>31,</b> |             | <b>Six Months Ended March<br/>31,</b> |             |
|--|---|-------------|---------------------------------------|-------------|
|  | <b>2010</b>                             | <b>2009</b> | <b>2010</b>                           | <b>2009</b> |
| Net income   | \$ 162,552                              | \$ 132,030  | \$ 298,790                            | \$ 316,428  |
| Other comprehensive income (loss):                                   |   |             |                                       |             |
| Net unrealized losses on investment securities<br>available-for-sale | (5)                                     | (511)       | (5)                                   | (1,121)     |
| Adjustment for deferred income taxes on net<br>unrealized losses     |   | 182         |                                       | 409         |
| Foreign currency translation adjustment                              | 18                                      | (53)        | 36                                    | (457)       |
| Total other comprehensive income (loss), net<br>of tax               | 13                                      | (382)       | 31                                    | (1,169)     |
| Comprehensive income   | \$ 162,565                              | \$ 131,648  | \$ 298,821                            | \$ 315,259  |

**11. 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 March 31, 2010. 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 FDIC-insured 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 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 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 March 2010, the IDA portfolio was comprised of approximately 11% component (a) investments, 82% component (b) investments and 7% 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 \$170.0 million and \$325.3 million for the three months and six months ended March 31, 2010, respectively, and \$136.5 million and \$299.8 million for the three months and six months ended March 31, 2009, 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 \$1.2 million and \$4.0 million for the three months and six months ended March 31, 2010, respectively, and \$31.5 million and \$83.0 million for the three months and six months ended March 31, 2009, 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 March 31, 2010 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 March 31, 2010 and September 30, 2009, respectively. The Company earned net interest revenue of \$0.3 million and \$0.7 million for the three months and six months ended March 31, 2010, respectively, and incurred net interest expense of \$0.1 million and \$0.5 million for the three months and six months ended March 31, 2009, respectively, 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 March 31, 2010 and 2009 and \$0.4 million for the six months ended March 31, 2010 and 2009, 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 30,985 and 43,590 SARs outstanding as of March 31, 2010 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 \$4.4 million and \$8.7 million for the three months and six months ended March 31, 2010, respectively, and \$3.9 million and \$7.8 million for the three months and six months ended March 31, 2009, 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. TDA Inc. has periodically promoted limited time offers 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 these promotions, 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 \$1.2 million and \$2.3 million for the three months and six months ended March 31, 2010, respectively, and \$3.3 million for the three months and six months ended March 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 March 31, 2010 and September 30, 2009, \$10.0 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, paid the Company the amount of exchange-sponsored payment for order flow that it received for routing TDA Inc. client orders to the exchanges. The Company earned \$0 and \$0.5 million of payment for order flow revenues from TD Options LLC for the three months and six months ended March 31, 2010, respectively, and \$0.9 million and \$1.6 million for the three months and six months ended March 31, 2009, 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.

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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.

**12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

The Senior Notes are jointly and severally and fully and unconditionally guaranteed by TDAOH. Presented below is condensed consolidating financial information for the Company, its guarantor subsidiary and its non-guarantor subsidiaries for the periods indicated.

**TD AMERITRADE HOLDING CORPORATION**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF MARCH 31, 2010**  
**(Unaudited)**  
**(In thousands)**

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b>  |
|--|---------------|---------------------------------|---------------------------------------|---------------------|---------------|
| <b>ASSETS</b>  |               |                                 |                                       |                     |               |
| Cash and cash equivalents  | \$ 111,432    | \$ 66,136                       | \$ 656,012                            | \$                  | \$ 833,580    |
| Cash and investments<br>segregated in compliance with<br>federal regulations |               |                                 | 1,549,430                             |                     | 1,549,430     |
| Receivable from brokers,<br>dealers and clearing<br>organizations            |               |                                 | 1,465,208                             |                     | 1,465,208     |
| Receivable from clients, net of<br>allowance for doubtful<br>accounts        |               |                                 | 6,860,274                             |                     | 6,860,274     |
| Investments in subsidiaries  | 5,229,518     | 4,195,470                       |                                       | (9,424,988)         |               |
| Receivable from affiliates   | 1,081         | 236,200                         | 100,264                               | (239,845)           | 97,700        |
| Goodwill   |               |                                 | 2,466,133                             |                     | 2,466,133     |
| Acquired intangible assets   |               | 145,674                         | 1,028,445                             |                     | 1,174,119     |
| Other  | 57,953        | 1,595                           | 707,684                               | (23,611)            | 743,621       |
| Total assets   | \$ 5,399,984  | \$ 4,645,075                    | \$ 14,833,450                         | \$ (9,688,444)      | \$ 15,190,065 |

**LIABILITIES AND  
STOCKHOLDERS EQUITY**

**Liabilities:**

|   |           |        |              |           |              |
|---|-----------|--------|--------------|-----------|--------------|
| Payable to brokers, dealers and<br>clearing organizations | \$        | \$     | \$ 2,236,407 | \$        | \$ 2,236,407 |
| Payable to clients  |           |        | 6,848,986    |           | 6,848,986    |
| Accounts payable and accrued<br>liabilities               | 92,878    | 15,969 | 371,560      |           | 480,407      |
| Payable to affiliates                                     | 163,228   | 2,359  | 78,019       | (239,845) | 3,761        |
| Long-term debt  | 1,263,501 |        | 4,262        |           | 1,267,763    |
| Other   |           | 41,753 | 454,222      | (23,611)  | 472,364      |

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|  |              |              |               |                |               |
|--|--------------|--------------|---------------|----------------|---------------|
| Total liabilities                          | 1,519,607    | 60,081       | 9,993,456     | (263,456)      | 11,309,688    |
| Stockholders' equity                       | 3,880,377    | 4,584,994    | 4,839,994     | (9,424,988)    | 3,880,377     |
| Total liabilities and stockholders' equity | \$ 5,399,984 | \$ 4,645,075 | \$ 14,833,450 | \$ (9,688,444) | \$ 15,190,065 |

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**TD AMERITRADE HOLDING CORPORATION**  
**CONDENSED CONSOLIDATING BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2009**  
**(Unaudited)**  
**(In thousands)**

|  | <b>Parent</b>    | <b>Guarantor<br/>Subsidiary</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b>      |
|--|------------------|---------------------------------|---------------------------------------|---------------------|-------------------|
| <b>ASSETS</b>  |                  |                                 |                                       |                     |                   |
| Cash and cash equivalents  | \$ 45,291        | \$ 109,079                      | \$ 636,841                            | \$                  | \$ 791,211        |
| Cash and investments<br>segregated in compliance with<br>federal regulations |                  |                                 | 5,813,862                             |                     | 5,813,862         |
| Receivable from brokers,<br>dealers and clearing<br>organizations            |                  |                                 | 1,777,741                             |                     | 1,777,741         |
| Receivable from clients, net of<br>allowance for doubtful<br>accounts        |                  |                                 | 5,712,261                             |                     | 5,712,261         |
| Investments in subsidiaries  | 5,298,879        | 4,145,057                       |                                       | (9,443,936)         |                   |
| Receivable from affiliates   | 2,140            | 220,654                         | 91,839                                | (221,659)           | 92,974            |
| Goodwill   |                  |                                 | 2,472,098                             |                     | 2,472,098         |
| Acquired intangible assets   |                  | 145,674                         | 1,079,048                             |                     | 1,224,722         |
| Other  | 44,877           | 50,501                          | 426,131                               | (34,568)            | 486,941           |
| <br>Total assets   | <br>\$ 5,391,187 | <br>\$ 4,670,965                | <br>\$ 18,009,821                     | <br>\$ (9,700,163)  | <br>\$ 18,371,810 |
| <br><b>LIABILITIES AND<br/>STOCKHOLDERS EQUITY</b>                           |                  |                                 |                                       |                     |                   |
| Liabilities:   |                  |                                 |                                       |                     |                   |
| Payable to brokers, dealers and<br>clearing organizations                    | \$               | \$                              | \$ 2,491,617                          | \$                  | \$ 2,491,617      |
| Payable to clients   |                  |                                 | 9,914,823                             |                     | 9,914,823         |
| Accounts payable and accrued<br>liabilities                                  | 272,510          | 22,217                          | 406,059                               |                     | 700,786           |
| Payable to affiliates  | 160,894          | 2,324                           | 62,165                                | (221,659)           | 3,724             |
| Long-term debt   | 1,406,500        |                                 | 8,400                                 |                     | 1,414,900         |
| Other  |                  | 41,700                          | 287,545                               | (34,568)            | 294,677           |
| <br>Total liabilities  | <br>1,839,904    | <br>66,241                      | <br>13,170,609                        | <br>(256,227)       | <br>14,820,527    |
| <br>Stockholders' equity   | <br>3,551,283    | <br>4,604,724                   | <br>4,839,212                         | <br>(9,443,936)     | <br>3,551,283     |
| <br>Total liabilities and<br>stockholders' equity                            | <br>\$ 5,391,187 | <br>\$ 4,670,965                | <br>\$ 18,009,821                     | <br>\$ (9,700,163)  | <br>\$ 18,371,810 |

**TD AMERITRADE HOLDING CORPORATION**  
**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 2010**  
**(Unaudited)**  
**(In thousands)**

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|--|---------------|---------------------------------|---------------------------------------|---------------------|--------------|
| Net revenues   | \$ 2,583      | \$ 35                           | \$ 635,427                            | \$ (2,611)          | \$ 635,434   |
| Operating expenses   | 2,194         | (731)                           | 409,117                               | (2,611)             | 407,969      |
| Operating income   | 389           | 766                             | 226,310                               |                     | 227,465      |
| Other expense  | 10,634        |                                 | 303                                   |                     | 10,937       |
| Income (loss) before income taxes<br>and equity in income of<br>subsidiaries | (10,245)      | 766                             | 226,007                               |                     | 216,528      |
| Provision for (benefit from)<br>income taxes                                 | (26,347)      | (4,235)                         | 84,558                                |                     | 53,976       |
| Income before equity in income of<br>subsidiaries                            | 16,102        | 5,001                           | 141,449                               |                     | 162,552      |
| Equity in income of subsidiaries   | 146,450       | 133,046                         |                                       | (279,496)           |              |
| Net income   | \$ 162,552    | \$ 138,047                      | \$ 141,449                            | \$ (279,496)        | \$ 162,552   |

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**TD AMERITRADE HOLDING CORPORATION**  
**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 2009**  
**(Unaudited)**  
**(In thousands)**

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|--|---------------|---------------------------------|---------------------------------------|---------------------|--------------|
| Net revenues   | \$ 7,515      | \$ 288                          | \$ 525,290                            | \$ (7,594)          | \$ 525,499   |
| Operating expenses   | 5,903         | 104                             | 294,582                               | (7,594)             | 292,995      |
| Operating income   | 1,612         | 184                             | 230,708                               |                     | 232,504      |
| Other expense  | 8,207         |                                 | 37                                    |                     | 8,244        |
| Income (loss) before income taxes<br>and equity in income of<br>subsidiaries | (6,595)       | 184                             | 230,671                               |                     | 224,260      |
| Provision for (benefit from)<br>income taxes                                 | (1,152)       | 1,239                           | 92,143                                |                     | 92,230       |
| Income (loss) before equity in<br>income of subsidiaries                     | (5,443)       | (1,055)                         | 138,528                               |                     | 132,030      |
| Equity in income of subsidiaries   | 137,473       | 138,527                         |                                       | (276,000)           |              |
| Net income   | \$ 132,030    | \$ 137,472                      | \$ 138,528                            | \$ (276,000)        | \$ 132,030   |

**TD AMERITRADE HOLDING CORPORATION**  
**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**SIX MONTHS ENDED MARCH 31, 2010**  
**(Unaudited)**  
**(In thousands)**

|                    | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|--------------------|---------------|---------------------------------|---------------------------------------|---------------------|--------------|
| Net revenues       | \$ 7,351      | \$ 80                           | \$ 1,260,026                          | \$ (7,405)          | \$ 1,260,052 |
| Operating expenses | 4,509         | (431)                           | 795,511                               | (7,405)             | 792,184      |
| Operating income   | 2,842         | 511                             | 464,515                               |                     | 467,868      |
| Other expense      | 30,280        |                                 | 679                                   |                     | 30,959       |

|  |            |            |            |              |            |
|--|------------|------------|------------|--------------|------------|
| Income (loss) before income taxes and equity in income of subsidiaries | (27,438)   | 511        | 463,836    |              | 436,909    |
| Provision for (benefit from) income taxes                              | (30,620)   | (4,327)    | 173,066    |              | 138,119    |
| Income before equity in income of subsidiaries                         | 3,182      | 4,838      | 290,770    |              | 298,790    |
| Equity in income of subsidiaries                                       | 295,608    | 282,532    |            | (578,140)    |            |
| Net income   | \$ 298,790 | \$ 287,370 | \$ 290,770 | \$ (578,140) | \$ 298,790 |

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**TD AMERITRADE HOLDING CORPORATION**  
**CONDENSED CONSOLIDATING STATEMENT OF INCOME**  
**SIX MONTHS ENDED MARCH 31, 2009**  
(Unaudited)  
(In thousands)

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|--|---------------|---------------------------------|---------------------------------------|---------------------|--------------|
| Net revenues   | \$ 15,479     | \$ 799                          | \$ 1,135,602                          | \$ (15,652)         | \$ 1,136,228 |
| Operating expenses   | 12,733        | 241                             | 590,086                               | (15,535)            | 587,525      |
| Operating income   | 2,746         | 558                             | 545,516                               | (117)               | 548,703      |
| Other expense (income)   | 23,923        | 117                             | (42)                                  | (117)               | 23,881       |
| Income (loss) before income<br>taxes and equity in income of<br>subsidiaries | (21,177)      | 441                             | 545,558                               |                     | 524,822      |
| Provision for (benefit from)<br>income taxes                                 | (3,652)       | 1,301                           | 210,745                               |                     | 208,394      |
| Income (loss) before equity in<br>income of subsidiaries                     | (17,525)      | (860)                           | 334,813                               |                     | 316,428      |
| Equity in income of subsidiaries   | 333,953       | 334,813                         |                                       | (668,766)           |              |
| Net income   | \$ 316,428    | \$ 333,953                      | \$ 334,813                            | \$ (668,766)        | \$ 316,428   |

**TD AMERITRADE HOLDING CORPORATION**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**SIX MONTHS ENDED MARCH 31, 2010**  
(Unaudited)  
(In thousands)

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Total</b> |
|--|---------------|---------------------------------|---------------------------------------|--------------|
| Net cash provided by (used in) operating<br>activities | \$ (142,584)  | \$ (17,333)                     | \$ 356,780                            | \$ 196,863   |
| Cash flows from investing activities:                  |               |                                 |                                       |              |
| Purchase of property and equipment                     |               |                                 | (38,391)                              | (38,391)     |
| Proceeds from redemption of money market<br>funds      | 108           | 49,390                          | 1,980                                 | 51,478       |
| Other  |               |                                 | (2)                                   | (2)          |

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|  |             |           |            |             |
|--|-------------|-----------|------------|-------------|
| Net cash provided by (used in) investing activities          | 108         | 49,390    | (36,413)   | 13,085      |
| Cash flows from financing activities:                        |             |           |            |             |
| Proceeds from issuance of long-term debt                     | 1,248,557   |           |            | 1,248,557   |
| Payment of debt issuance costs                               | (10,664)    |           |            | (10,664)    |
| Principal payments on long-term debt                         | (1,406,500) |           | (4,138)    | (1,410,638) |
| Purchase of treasury stock                                   | (4,450)     |           |            | (4,450)     |
| Other  | 16,674      |           | (7,095)    | 9,579       |
| Net cash used in financing activities                        | (156,383)   |           | (11,233)   | (167,616)   |
| Intercompany investing and financing activities, net         | 365,000     | (75,000)  | (290,000)  |             |
| Effect of exchange rate changes on cash and cash equivalents |             |           | 37         | 37          |
| Net increase (decrease) in cash and cash equivalents         | 66,141      | (42,943)  | 19,171     | 42,369      |
| Cash and cash equivalents at beginning of period             | 45,291      | 109,079   | 636,841    | 791,211     |
| Cash and cash equivalents at end of period                   | \$ 111,432  | \$ 66,136 | \$ 656,012 | \$ 833,580  |

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**TD AMERITRADE HOLDING CORPORATION**  
**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**  
**SIX MONTHS ENDED MARCH 31, 2009**  
**(Unaudited)**  
**(In thousands)**

|  | <b>Parent</b> | <b>Guarantor<br/>Subsidiary</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Total</b> |
|--|---------------|---------------------------------|---------------------------------------|--------------|
| Net cash provided by (used in) operating activities          | \$ 156,984    | \$ (197,957)                    | \$ 659,075                            | \$ 618,102   |
| Cash flows from investing activities:                        |               |                                 |                                       |              |
| Purchase of property and equipment                           |               |                                 | (25,259)                              | (25,259)     |
| Proceeds from redemption of money market funds               | 611           | 151,772                         | 137,964                               | 290,347      |
| Other  |               | 1,180                           | (146)                                 | 1,034        |
| Net cash provided by investing activities                    | 611           | 152,952                         | 112,559                               | 266,122      |
| Cash flows from financing activities:                        |               |                                 |                                       |              |
| Principal payments on long-term debt                         | (18,750)      |                                 |                                       | (18,750)     |
| Purchase of treasury stock                                   | (465,403)     |                                 |                                       | (465,403)    |
| Other  | 1,319         |                                 | (2,169)                               | (850)        |
| Net cash used in financing activities                        | (482,834)     |                                 | (2,169)                               | (485,003)    |
| Intercompany investing and financing activities, net         | 410,000       | 106,999                         | (516,999)                             |              |
| Effect of exchange rate changes on cash and cash equivalents |               |                                 | (714)                                 | (714)        |
| Net increase in cash and cash equivalents                    | 84,761        | 61,994                          | 251,752                               | 398,507      |
| Cash and cash equivalents at beginning of period             | 989           | 171,010                         | 502,136                               | 674,135      |
| Cash and cash equivalents at end of period                   | \$ 85,750     | \$ 233,004                      | \$ 753,888                            | \$ 1,072,642 |

**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; average commissions and transaction fees per trade; amounts of commissions and transaction fees, asset-based revenues and other revenues; our migration of client cash balances into the insured deposit account offering; amounts of total operating expenses; 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-

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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](http://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 our 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 and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA is used as the denominator in the consolidated leverage ratio calculation for covenant purposes under our senior revolving credit facility. EBITDA eliminates the non-cash effect of tangible asset depreciation and amortization and intangible asset amortization. EBITDA excluding investment gains/losses also eliminates the effect of non-brokerage investment-related gains and losses that are not likely to be indicative of the ongoing operations of our business. EBITDA and EBITDA excluding investment gains/losses should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

***Operating expenses excluding advertising*** Operating expenses excluding advertising is a non-GAAP financial measure. Operating expenses excluding advertising consists of total operating expenses, adjusted to remove advertising expense. We consider operating expenses excluding advertising an important measure of the financial performance of our ongoing business. Advertising spending is excluded because it is largely at the discretion of the Company, varies significantly from period to period based on market conditions and generally relates to the acquisition of future revenues through new accounts rather than current revenues from existing accounts. Operating expenses excluding advertising should be considered in addition to, rather than as a substitute for, total operating expenses.

### **RESULTS OF OPERATIONS**

Conditions in the U.S. equity markets significantly impact the volume of our clients trading activity. There is a direct correlation between the volume of our clients trading activity and our results of operations. We cannot predict future trading volumes in the U.S. equity markets. If client trading activity increases, we expect that it would have a positive impact on our results of operations. If client trading activity declines, we expect that it would have a negative impact on our results of operations.

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

### **Financial Performance Metrics**

Pre-tax income, net income, earnings per share and EBITDA (earnings before interest, taxes, depreciation and amortization) are key metrics we use in evaluating our financial performance. EBITDA is a non-GAAP financial measure.

We consider EBITDA an important measure of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA is used as the denominator in the consolidated leverage ratio calculation for covenant purposes under our senior revolving credit facility. EBITDA eliminates the non-cash effect of tangible asset depreciation and amortization and intangible asset amortization. EBITDA should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

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The following table sets forth EBITDA in dollars and as a percentage of net revenues for the periods indicated and provides reconciliations to net income, which is the most directly comparable GAAP measure (dollars in thousands):

|  | Three months ended March 31, |             |            |             | Six months ended March 31, |             |            |             |
|--|------------------------------|-------------|------------|-------------|----------------------------|-------------|------------|-------------|
|  | 2010                         | % of        | 2009       | % of        | 2010                       | % of        | 2009       | % of        |
|  | \$                           | Net Revenue | \$         | Net Revenue | \$                         | Net Revenue | \$         | Net Revenue |
| <b>EBITDA</b>                              |                              |             |            |             |                            |             |            |             |
| EBITDA                                     | \$ 265,952                   | 41.9%       | \$ 258,339 | 49.2%       | \$ 537,152                 | 42.6%       | \$ 601,579 | 52.9%       |
| Less:                                      |                              |             |            |             |                            |             |            |             |
| Depreciation and amortization              | (13,463)                     | (2.1%)      | (10,635)   | (2.0%)      | (27,073)                   | (2.1%)      | (22,138)   | (1.9%)      |
| Amortization of acquired intangible assets | (25,024)                     | (3.9%)      | (15,200)   | (2.9%)      | (50,603)                   | (4.0%)      | (30,738)   | (2.7%)      |
| Interest on borrowings                     | (10,937)                     | (1.7%)      | (8,244)    | (1.6%)      | (22,567)                   | (1.8%)      | (23,881)   | (2.1%)      |
| Provision for income taxes                 | (53,976)                     | (8.5%)      | (92,230)   | (17.6%)     | (138,119)                  | (11.0%)     | (208,394)  | (18.3%)     |
| Net income                                 | \$ 162,552                   | 25.6%       | \$ 132,030 | 25.1%       | \$ 298,790                 | 23.7%       | \$ 316,428 | 27.8%       |

Our EBITDA decreased for the first half of fiscal 2010 compared to the first half of fiscal 2009 primarily due to (1) lower net interest margin earned on spread-based balances and investment product fees waived on money market mutual funds due to the near-zero short-term interest rate environment, (2) a 7% decrease in average client trades per day on a pro forma combined basis including results of thinkorswim Group Inc. ( thinkorswim ) (thinkorswim was acquired during the third quarter of fiscal 2009), and (3) higher incentive-based compensation related to our success in attracting net new client assets. These factors were partially offset by the favorable revenue impact of a 93% increase in average spread-based balances for the first half of fiscal 2010 compared to the first half of fiscal 2009. Detailed analysis of net revenues and expenses is presented later in this discussion.

**Operating Metrics**

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For the six months ended March 31, 2010, asset-based revenues and transaction-based revenues accounted for 46% and 48% of our net revenues, respectively. Asset-based revenues consist of (1) net interest revenue, (2) insured deposit account fees and (3) investment product fees. The primary factors driving our asset-based revenues are average balances and average rates. Average balances consist primarily of average client margin balances, average segregated cash balances, average client credit balances, average client insured deposit account balances, average fee-based investment balances and average securities borrowing and lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances. The primary factors driving our transaction-based revenues are total client trades and average commissions and transaction fees per trade. We also consider client account and client asset metrics, although we believe they are generally of less significance to our results of operations for any particular period than our metrics for asset-based and transaction-based revenues.

**Asset-Based Revenue Metrics**

We calculate the return on our interest-earning assets (excluding conduit-based assets) and our insured deposit account balances using a measure we refer to as net interest margin. Net interest margin is calculated for a given period by dividing the annualized sum of net interest revenue (excluding net interest revenue from conduit-based assets) and insured deposit account fees by average spread-based assets. Spread-based assets consist of client and brokerage-related asset balances, including client margin balances, segregated cash, insured deposit account balances,

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deposits paid on securities borrowing (excluding conduit-based assets) and other cash and interest-earning investment balances. The following table sets forth net interest margin and average spread-based assets (dollars in millions):

|  | <b>Three months ended</b> |             | <b>Increase/<br/>(Decrease)</b> | <b>Six months ended</b> |             | <b>Increase/<br/>(Decrease)</b> |
|--|---------------------------|-------------|---------------------------------|-------------------------|-------------|---------------------------------|
|  | <b>March 31,</b>          | <b>2009</b> |                                 | <b>March 31,</b>        | <b>2009</b> |                                 |
|  | <b>2010</b>               |             |                                 | <b>2010</b>             |             |                                 |
| Avg. interest-earning assets (excluding conduit business)                  | \$ 12,959                 | \$ 7,358    | \$ 5,601                        | \$ 14,254               | \$ 7,444    | \$ 6,810                        |
| Avg. insured deposit account balances                                      | 39,304                    | 19,272      | 20,032                          | 35,904                  | 18,577      | 17,327                          |
| Avg. spread-based balances   | \$ 52,263                 | \$ 26,630   | \$ 25,633                       | \$ 50,158               | \$ 26,021   | \$ 24,137                       |
| Net interest revenue (excluding conduit business)                          | \$ 99.7                   | \$ 66.7     | \$ 33.0                         | \$ 199.0                | \$ 148.8    | \$ 50.2                         |
| Insured deposit account fee revenue  | 170.0                     | 136.5       | 33.5                            | 325.3                   | 299.8       | 25.5                            |
| Spread-based revenue   | \$ 269.7                  | \$ 203.2    | \$ 66.5                         | \$ 524.3                | \$ 448.6    | \$ 75.7                         |
| Avg. annualized yield interest-earning assets (excluding conduit business) | 3.08%                     | 3.63%       | (0.55%)                         | 2.76%                   | 3.96%       | (1.20%)                         |
| Avg. annualized yield insured deposit account fees                         | 1.73%                     | 2.83%       | (1.10%)                         | 1.79%                   | 3.19%       | (1.40%)                         |
| Net interest margin (NIM)  | 2.06%                     | 3.05%       | (0.99%)                         | 2.07%                   | 3.41%       | (1.34%)                         |

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The following tables set forth key metrics that we use in analyzing net interest revenue, which, exclusive of the conduit business, is a component of net interest margin (dollars in millions):

|   | <b>Interest Revenue<br/>(Expense)<br/>Three months ended<br/>March 31,</b> |             |                                 | <b>Interest Revenue<br/>(Expense)<br/>Six months ended<br/>March 31,</b> |             |                                 |
|---|--|-------------|---------------------------------|--|-------------|---------------------------------|
|   | <b>2010</b>  | <b>2009</b> | <b>Increase/<br/>(Decrease)</b> | <b>2010</b>  | <b>2009</b> | <b>Increase/<br/>(Decrease)</b> |
|   |  |             |                                 |  |             |                                 |
| Segregated cash   | \$ 1.4   | \$ 0.7      | \$ 0.7                          | \$ 4.1   | \$ 2.3      | \$ 1.8                          |
| Client margin balances                                  | 78.3   | 49.7        | 28.6                            | 153.0  | 114.5       | 38.5                            |
| Securities borrowing<br>(excluding conduit<br>business) | 20.9   | 16.1        | 4.8                             | 43.9   | 33.4        | 10.5                            |
| Other cash and<br>interest-earning<br>investments, net  | 0.2  | 1.1         | (0.9)                           | 0.5  | 2.9         | (2.4)                           |
| Client credit balances                                  | (0.7)  | (0.6)       | (0.1)                           | (1.8)  | (2.3)       | 0.5                             |
| Securities lending<br>(excluding conduit<br>business)   | (0.4)  | (0.3)       | (0.1)                           | (0.7)  | (2.0)       | 1.3                             |
| Net interest revenue<br>(excluding conduit<br>business) | 99.7   | 66.7        | 33.0                            | 199.0  | 148.8       | 50.2                            |
| Securities borrowing<br>conduit business                | 0.5  | 2.2         | (1.7)                           | 0.9  | 8.6         | (7.7)                           |
| Securities lending conduit<br>business                  | (0.2)  | (1.5)       | 1.3                             | (0.5)  | (5.2)       | 4.7                             |
| Net interest revenue                                    | \$ 100.0   | \$ 67.4     | \$ 32.6                         | \$ 199.4   | \$ 152.2    | \$ 47.2                         |

|   | <b>Average Balance<br/>Three months ended<br/>March 31,</b> |             |                     | <b>Average Balance<br/>Six months ended<br/>March 31,</b> |             |                     |
|---|---|-------------|---------------------|---|-------------|---------------------|
|   | <b>2010</b>   | <b>2009</b> | <b>%<br/>Change</b> | <b>2010</b>   | <b>2009</b> | <b>%<br/>Change</b> |
|   |   |             |                     |   |             |                     |
| Segregated cash   | \$ 4,521  | \$ 1,964    | 130%                | \$ 6,190  | \$ 1,819    | 240%                |
| Client margin balances                                  | 6,743   | 3,878       | 74%                 | 6,408   | 4,190       | 53%                 |
| Securities borrowing<br>(excluding conduit business)    | 487   | 324         | 50%                 | 617   | 281         | 120%                |
| Other cash and<br>interest-earning investments          | 1,208   | 1,192       | 1%                  | 1,039   | 1,154       | (10%)               |
| Interest-earning assets<br>(excluding conduit business) | 12,959  | 7,358       | 76%                 | 14,254  | 7,444       | 91%                 |
| Securities borrowing conduit<br>business                | 544   | 1,418       | (62%)               | 553   | 1,518       | (64%)               |

|   |           |          |       |           |          |       |
|---|-----------|----------|-------|-----------|----------|-------|
| Interest-earning assets                                   | \$ 13,503 | \$ 8,776 | 54%   | \$ 14,807 | \$ 8,962 | 65%   |
| Client credit balances                                    | \$ 8,069  | \$ 4,217 | 91%   | \$ 9,501  | \$ 4,192 | 127%  |
| Securities lending (excluding conduit business)           | 1,740     | 915      | 90%   | 1,666     | 1,117    | 49%   |
| Interest-bearing liabilities (excluding conduit business) | 9,809     | 5,132    | 91%   | 11,167    | 5,309    | 110%  |
| Securities lending conduit business                       | 544       | 1,418    | (62%) | 553       | 1,518    | (64%) |
| Interest-bearing liabilities                              | \$ 10,353 | \$ 6,550 | 58%   | \$ 11,720 | \$ 6,827 | 72%   |

|   | Avg. Annualized Yield (Cost) |         |                                | Avg. Annualized Yield (Cost) |         |                                |
|---|------------------------------|---------|--------------------------------|------------------------------|---------|--------------------------------|
|   | Three months ended March 31, |         | Net Yield Increase/ (Decrease) | Six months ended March 31,   |         | Net Yield Increase/ (Decrease) |
|   | 2010                         | 2009    |                                | 2010                         | 2009    |                                |
| Segregated cash                                   | 0.12%                        | 0.14%   | (0.02%)                        | 0.13%                        | 0.25%   | (0.12%)                        |
| Client margin balances                            | 4.64%                        | 5.13%   | (0.49%)                        | 4.72%                        | 5.40%   | (0.68%)                        |
| Other cash and interest-earning investments, net  | 0.06%                        | 0.36%   | (0.30%)                        | 0.09%                        | 0.49%   | (0.40%)                        |
| Client credit balances                            | (0.03%)                      | (0.06%) | 0.03%                          | (0.04%)                      | (0.11%) | 0.07%                          |
| Net interest revenue (excluding conduit business) | 3.08%                        | 3.63%   | (0.55%)                        | 2.76%                        | 3.96%   | (1.20%)                        |
| Securities borrowing conduit business             | 0.32%                        | 0.62%   | (0.30%)                        | 0.33%                        | 1.12%   | (0.79%)                        |
| Securities lending conduit business               | (0.17%)                      | (0.42%) | 0.25%                          | (0.20%)                      | (0.68%) | 0.48%                          |
| Net interest revenue                              | 2.96%                        | 3.07%   | (0.11%)                        | 2.66%                        | 3.36%   | (0.70%)                        |

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The following tables set forth key metrics that we use in analyzing investment product fee revenues (dollars in millions):

|                               | Fee Revenue<br>Three months ended<br>March 31, |         |                         | Fee Revenue<br>Six months ended<br>March 31, |          |                         |
|-------------------------------|--|---------|-------------------------|--|----------|-------------------------|
|                               | 2010   | 2009    | Increase/<br>(Decrease) | 2010   | 2009     | Increase/<br>(Decrease) |
|                               |  |         |                         |  |          |                         |
| Money market mutual fund      | \$ 1.2   | \$ 31.5 | \$ (30.3)               | \$ 4.0                                       | \$ 83.0  | \$ (79.0)               |
| Other investment product fees | 29.1   | 16.6    | 12.5                    | 55.8   | 34.3     | 21.5                    |
| Total investment product fees | \$ 30.3  | \$ 48.1 | \$ (17.8)               | \$ 59.8                                      | \$ 117.3 | \$ (57.5)               |

|                                     | Average Balance<br>Three months ended<br>March 31, |           |             | Average Balance<br>Six months ended<br>March 31, |           |             |
|-------------------------------------|--|-----------|-------------|--|-----------|-------------|
|                                     | 2010   | 2009      | %<br>Change | 2010   | 2009      | %<br>Change |
|                                     |  |           |             |  |           |             |
| Money market mutual fund            | \$ 9,498   | \$ 26,969 | (65%)       | \$ 10,733  | \$ 27,536 | (61%)       |
| Other fee-based investment balances | 50,012   | 31,964    | 56%         | 48,245   | 33,335    | 45%         |
| Total fee-based investment balances | \$ 59,510  | \$ 58,933 | 1%          | \$ 58,978  | \$ 60,871 | (3%)        |

|                               | Average Annualized<br>Yield     |       |   | Average Annualized<br>Yield   |       |   |
|-------------------------------|---------------------------------|-------|---|-------------------------------|-------|---|
|                               | Three months ended<br>March 31, |       | Net<br>Yield<br>Increase/<br>(Decrease) | Six months ended<br>March 31, |       | Net<br>Yield<br>Increase/<br>(Decrease) |
|                               | 2010                            | 2009  |   | 2010                          | 2009  |   |
| Money market mutual fund      | 0.05%                           | 0.47% | (0.42%)                                 | 0.07%                         | 0.60% | (0.53%)                                 |
| Other investment product fees | 0.23%                           | 0.21% | 0.02%                                   | 0.23%                         | 0.20% | 0.03%                                   |
| Total investment product fees | 0.20%                           | 0.33% | (0.13%)                                 | 0.20%                         | 0.38% | (0.18%)                                 |

**Transaction-Based Revenue Metrics**

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

|  | Three months ended<br>March 31, |          |             | Six months ended<br>March 31, |          |             |
|--|---------------------------------|----------|-------------|-------------------------------|----------|-------------|
|  | 2010                            | 2009     | %<br>Change | 2010                          | 2009     | %<br>Change |
|  |                                 |          |             |                               |          |             |
| Total trades (in millions)                         | 23.10                           | 19.82    | 17%         | 46.95                         | 42.32    | 11%         |
| Average commissions and transaction fees per trade | \$ 13.04                        | \$ 13.40 | (3%)        | \$ 13.01                      | \$ 13.06 | (0%)        |

(1)

|  |         |         |     |         |         |     |
|--|---------|---------|-----|---------|---------|-----|
| Average client trades per day                  | 378,714 | 324,837 | 17% | 378,636 | 341,327 | 11% |
| Average client trades per account (annualized) | 12.3    | 11.5    | 7%  | 12.4    | 12.2    | 2%  |
| Activity rate total accounts                   | 4.9%    | 4.6%    | 7%  | 4.9%    | 4.8%    | 2%  |
| Activity rate funded accounts                  | 7.1%    | 6.4%    | 11% | 7.1%    | 6.8%    | 4%  |
| Trading days                                   | 61.0    | 61.0    | 0%  | 124.0   | 124.0   | 0%  |

(1) Average commissions and transaction fees per trade excludes thinkorswim active trader business.

**Table of Contents****Client Account and Client Asset Metrics**

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

|  | Three months ended<br>March 31, |           |             | Six months ended<br>March 31, |           |             |
|--|---------------------------------|-----------|-------------|-------------------------------|-----------|-------------|
|  | 2010                            | 2009      | %<br>Change | 2010                          | 2009      | %<br>Change |
| Total accounts<br>(beginning of period)                    | 7,675,000                       | 7,052,000 | 9%          | 7,563,000                     | 6,895,000 | 10%         |
| New accounts opened  | 187,000                         | 194,000   | (4%)        | 367,000                       | 410,000   | (10%)       |
| Accounts closed  | (74,000)                        | (51,000)  | 45%         | (142,000)                     | (110,000) | 29%         |
| Total accounts (end<br>of period)                          | 7,788,000                       | 7,195,000 | 8%          | 7,788,000                     | 7,195,000 | 8%          |
| Percentage change<br>during period                         | 1%                              | 2%        |             | 3%                            | 4%        |             |
| Funded accounts<br>(beginning of period)                   | 5,327,000                       | 5,013,000 | 6%          | 5,279,000                     | 4,918,000 | 7%          |
| Funded accounts (end<br>of period)                         | 5,379,000                       | 5,105,000 | 5%          | 5,379,000                     | 5,105,000 | 5%          |
| Percentage change<br>during period                         | 1%                              | 2%        |             | 2%                            | 4%        |             |
| Client assets<br>(beginning of period,<br>in billions)     | \$ 318.6                        | \$ 233.8  | 36%         | \$ 302.0                      | \$ 278.0  | 9%          |
| Client assets (end of<br>period, in billions)              | \$ 341.5                        | \$ 224.9  | 52%         | \$ 341.5                      | \$ 224.9  | 52%         |
| Percentage change<br>during period                         | 7%                              | (4%)      |             | 13%                           | (19%)     |             |
| Net new assets (in<br>billions)                            | \$ 10.2                         | \$ 6.4    | 59%         | \$ 18.9                       | \$ 14.3   | 32%         |
| Net new assets<br>annualized growth<br>rate <sup>(1)</sup> | 13%                             | 11%       | 18%         | 13%                           | 10%       | 30%         |

(1) Annualized net new assets as a percentage of client assets as of the beginning of the period.

In connection with our purchase of thinkorswim on June 11, 2009, we acquired approximately 197,000 total accounts, approximately 113,000 funded accounts and approximately \$4 billion in client assets.

**Table of Contents****Consolidated Statements of Income Data**

The following table summarizes certain data from our Condensed Consolidated Statements of Income for analysis purposes

(dollars in millions):

|  | <b>Three months ended<br/>March 31,</b> |             | <b>%</b>      | <b>Six months ended<br/>March 31,</b> |             | <b>%</b>      |
|--|---|-------------|---------------|---------------------------------------|-------------|---------------|
|  | <b>2010</b>                             | <b>2009</b> | <b>Change</b> | <b>2010</b>                           | <b>2009</b> | <b>Change</b> |
| Revenues:  |   |             |               |                                       |             |               |
| Transaction-based revenues:                              |   |             |               |                                       |             |               |
| Commissions and transaction fees                         | \$ 301.3                                | \$ 265.4    | 13%           | \$ 610.7                              | \$ 552.6    | 11%           |
| Asset-based revenues:                                    |   |             |               |                                       |             |               |
| Interest revenue   | 101.4                                   | 70.2        | 44%           | 202.7                                 | 162.8       | 25%           |
| Brokerage interest expense                               | (1.4)                                   | (2.8)       | (49%)         | (3.3)                                 | (10.5)      | (69%)         |
| Net interest revenue                                     | 100.0                                   | 67.4        | 48%           | 199.4                                 | 152.2       | 31%           |
| Insured deposit account fees                             | 170.0                                   | 136.5       | 24%           | 325.3                                 | 299.8       | 9%            |
| Investment product fees                                  | 30.3                                    | 48.1        | (37%)         | 59.8                                  | 117.3       | (49%)         |
| Total asset-based revenues                               | 300.3                                   | 252.0       | 19%           | 584.4                                 | 569.3       | 3%            |
| Other revenues   | 33.9                                    | 8.0         | 323%          | 64.9                                  | 14.4        | 351%          |
| Net revenues   | 635.4                                   | 525.5       | 21%           | 1,260.1                               | 1,136.2     | 11%           |
| Operating expenses:                                      |   |             |               |                                       |             |               |
| Employee compensation and benefits                       | 164.9                                   | 120.8       | 36%           | 311.5                                 | 238.2       | 31%           |
| Clearing and execution costs                             | 24.1                                    | 15.1        | 60%           | 46.0                                  | 30.7        | 50%           |
| Communications   | 24.6                                    | 17.9        | 38%           | 49.3                                  | 36.6        | 35%           |
| Occupancy and equipment costs                            | 33.8                                    | 29.5        | 15%           | 68.7                                  | 59.7        | 15%           |
| Depreciation and amortization                            | 13.5                                    | 10.6        | 27%           | 27.1                                  | 22.1        | 22%           |
| Amortization of acquired intangible assets               | 25.0                                    | 15.2        | 65%           | 50.6                                  | 30.7        | 65%           |
| Professional services                                    | 31.5                                    | 22.1        | 43%           | 65.2                                  | 49.4        | 32%           |
| Advertising  | 71.6                                    | 53.1        | 35%           | 136.8                                 | 99.8        | 37%           |
| Gains on money market mutual funds and client guarantees | (1.9)                                   |             | N/A           | (1.9)                                 |             | N/A           |
| Other  | 20.9                                    | 8.7         | 140%          | 38.9                                  | 20.3        | 92%           |

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|  |            |            |       |            |            |       |
|--|------------|------------|-------|------------|------------|-------|
| Total operating expenses                     | 408.0      | 293.0      | 39%   | 792.2      | 587.5      | 35%   |
| Operating income                             | 227.5      | 232.5      | (2%)  | 467.9      | 548.7      | (15%) |
| Other expense:                               |            |            |       |            |            |       |
| Interest on borrowings                       | 10.9       | 8.2        | 33%   | 22.6       | 23.9       | (6%)  |
| Loss on debt refinancing                     |            |            | N/A   | 8.4        |            | N/A   |
| Total other expense                          | 10.9       | 8.2        | 33%   | 31.0       | 23.9       | 30%   |
| Pre-tax income                               | 216.5      | 224.3      | (3%)  | 436.9      | 524.8      | (17%) |
| Provision for income taxes                   | 54.0       | 92.2       | (41%) | 138.1      | 208.4      | (34%) |
| Net income                                   | \$ 162.6   | \$ 132.0   | 23%   | \$ 298.8   | \$ 316.4   | (6%)  |
| <u>Other information:</u>                    |            |            |       |            |            |       |
| Effective income tax rate                    | 24.9%      | 41.1%      |       | 31.6%      | 39.7%      |       |
| Average debt outstanding                     | \$ 1,280.2 | \$ 1,440.0 | (11%) | \$ 1,329.8 | \$ 1,447.5 | (8%)  |
| Average interest rate incurred on borrowings | 3.11%      | 2.00%      |       | 3.02%      | 3.00%      |       |

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

**Three-Month Periods Ended March 31, 2010 and 2009**

**Net Revenues**

Commissions and transaction fees increased 13% to \$301.3 million, primarily due to additional trading activity resulting from the thinkorswim acquisition in the third quarter of fiscal 2009. Average client trades per day increased 17% to 378,714 for the

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second quarter of fiscal 2010 compared to 324,837 for the second quarter of fiscal 2009. However, on a pro forma basis combined with thinkorswim, average client trades per day decreased 4% from 393,806 for the second quarter of fiscal 2009. Average client trades per account (annualized) were 12.3 for the second quarter of fiscal 2010 compared to 11.5 for the second quarter of fiscal 2009. Average commissions and transaction fees per trade decreased to \$13.04 per trade for the second quarter of fiscal 2010 from \$13.40 for the second quarter of fiscal 2009, primarily due to lower payment for order flow revenue per trade and the effect of thinkorswim, which earns somewhat lower average commissions and transaction fees per trade, during the second quarter of fiscal 2010. These decreases were partially offset by a higher percentage of option trades and a decrease in promotional trades during the second quarter of fiscal 2010. We expect average commissions and transaction fees to range between \$12.86 and \$13.03 per trade for the full year fiscal 2010, reflecting the full year effect of the thinkorswim business and somewhat lower expected payment for order flow revenue. We expect revenues from commissions and transaction fees to range between \$1.11 billion and \$1.29 billion for the full year fiscal 2010, depending on the volume of client trading activity, average commissions and transaction fees per trade and other factors.

Asset-based revenues, which consist of net interest revenue, insured deposit account fees and investment product fees, increased 19% to \$300.3 million during the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009, as described below. We expect asset-based revenues to range between \$1.20 billion and \$1.26 billion for the full year fiscal 2010, depending largely on the interest rate environment and the rate of growth in spread-based balances. This range assumes no change in the federal funds rate during fiscal 2010. We expect the effect of increased average spread-based asset balances to be partially offset by a decrease in the expected average yield earned on spread-based assets and client money market mutual funds compared to the prior year, due to the expected continued low short-term interest rate environment.

Net interest revenue increased 48% to \$100.0 million, due primarily to a 74% increase in average client margin balances and a \$4.3 million increase in net interest revenue from our securities borrowing/lending program in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. These increases were partially offset by a decrease of 49 basis points in the average yield earned on client margin balances for the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009.

Insured deposit account fees increased 24% to \$170.0 million, due primarily to a 104% increase in average client insured deposit account balances during the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. The increased insured deposit account balances are primarily due to our strategy of migrating client cash held in client credit balances or swept to money market mutual funds to the insured deposit account offering beginning in April 2009. We expect our migration strategy to position the Company to earn higher net revenues, as we generally earn a higher yield on insured deposit account balances than on money market mutual fund or client credit balances. The effect of the increased insured deposit account balances was significantly offset by a decrease of 110 basis points in the average yield earned on the insured deposit account assets during the second quarter of fiscal 2010.

Investment product fees decreased 37% to \$30.3 million, primarily due to a 65% decrease in average money market mutual fund balances and a decrease of 42 basis points in the average yield earned on client money market mutual fund balances in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. The decrease in average money market mutual fund balances results primarily from our client cash migration strategy discussed above. The decrease in the average yield earned in the second quarter of fiscal 2010 was primarily due to our decision to voluntarily begin waiving fees on certain money market mutual funds during the first quarter of fiscal 2009 in order to prevent our clients' yields on such funds from becoming negative. The unfavorable impact of the fee waivers on the average yield earned gradually increased during fiscal 2009.

Other revenues increased to \$33.9 million, primarily due to an increase in education revenues as a result of the thinkorswim acquisition. We expect other revenues to increase to between \$125 million and \$137 million for the full year fiscal 2010, reflecting a full year of thinkorswim education revenues.

**Operating Expenses**

Total operating expenses increased by 39% to \$408.0 million during the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009, as described below. We expect total operating expenses to range between \$1.56 billion and \$1.61 billion for the full year fiscal 2010, reflecting a full year of thinkorswim expenses.

Employee compensation and benefits expense increased 36% to \$164.9 million, primarily due to an increase in average headcount resulting from the thinkorswim acquisition and higher incentive-based compensation related to actual Company and individual performance, including our success in attracting net new client assets, in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. These increases were partially offset by the effect of higher severance costs related to

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staff reductions that occurred in the second quarter of fiscal 2009. The average number of full-time equivalent employees increased to 5,295 for the second quarter of fiscal 2010 compared to 4,570 for the second quarter of fiscal 2009.

Clearing and execution costs increased 60% to \$24.1 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition.

Communications expense increased 38% to \$24.6 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition, increased telecommunications costs resulting from our migration to a new secondary data center during fiscal 2009 and additional costs for quotes and market information related to organic client account growth since the second quarter of fiscal 2009.

Occupancy and equipment costs increased 15% to \$33.8 million due to upgrades to our technology infrastructure and facilities and due to the addition of thinkorswim occupancy and equipment costs.

Depreciation and amortization increased 27% to \$13.5 million, due primarily to depreciation on recent technology infrastructure upgrades and leasehold improvements and due to depreciation of assets recorded in the thinkorswim acquisition.

Amortization of acquired intangible assets increased 65% to \$25.0 million, due to amortization of intangible assets recorded in the thinkorswim acquisition.

Professional services increased 43% to \$31.5 million, primarily due to higher usage of consulting and contract services in connection with new product development and technology infrastructure upgrades, as well as the acquisition and integration of thinkorswim.

Advertising expense increased 35% to \$71.6 million, primarily due to marketing support for the thinkorswim business. We generally adjust our level of advertising spending in relation to stock market activity and other market conditions in an effort to maximize the number of new accounts while minimizing the advertising cost per new account.

Other operating expenses increased 140% to \$20.9 million, primarily due to additional expenses related to the thinkorswim business, including education travel and venue costs, and due to increased arbitration and regulatory expenses in the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009.

### **Other Expenses and Income Taxes**

Interest on borrowings increased 33% to \$10.9 million, due primarily to higher average interest rates incurred on our debt, partially offset by a decrease of approximately \$160 million in average debt outstanding during the second quarter of fiscal 2010 compared to the second quarter of fiscal 2009. The average interest rate incurred on our debt was 3.11% for the second quarter of fiscal 2010, compared to 2.00% for the second quarter of fiscal 2009.

Our effective income tax rate was 24.9% for the second quarter of fiscal 2010, compared to 41.1% for the second quarter of fiscal 2009. The effective tax rate for the second quarter of fiscal 2010 was unusually low due to \$27.5 million of favorable resolutions of certain federal and state income tax matters during the second quarter of fiscal 2010. These items favorably impacted our earnings for the second quarter of fiscal 2010 by approximately \$0.05 per share. The effective tax rate for the second quarter of fiscal 2009 was unusually high due to unfavorable deferred income tax adjustments of \$6.0 million resulting from state income tax law changes and capital loss limitations on certain money market mutual fund holdings. These items unfavorably impacted our earnings for the second quarter of fiscal 2009 by approximately \$0.01 per share. We expect our effective income tax rate to be approximately 39% for the remainder of fiscal 2010. However, we expect to experience some volatility in our quarterly and annual effective income tax rate because current accounting rules for uncertain tax positions require that any change in measurement of a tax position taken in a prior tax year be recognized as a discrete event in the period in which it occurs.

### **Six-Month Periods Ended March 31, 2010 and 2009**

#### **Net Revenues**

Commissions and transaction fees increased 11% to \$610.7 million, primarily due to additional trading activity resulting from the thinkorswim acquisition in the third quarter of fiscal 2009. Average client trades per day increased 11% to 378,636 for the first half of fiscal 2010 compared to 341,327 for the first half of fiscal 2009. However, on a pro forma basis combined with thinkorswim, average client trades per day decreased 7% from 406,462 for the first

half of fiscal 2009. Average client trades

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per account (annualized) were 12.4 for the first half of fiscal 2010 compared to 12.2 for the first half of fiscal 2009. Average commissions and transaction fees per trade decreased slightly to \$13.01 per trade for the first half of fiscal 2010 from \$13.06 for the first half of fiscal 2009, primarily due to the effect of thinkorswim during the first half of fiscal 2010, which earns somewhat lower average commissions and transaction fees per trade. These decreases were partially offset by a higher percentage of option trades and a decrease in promotional trades during the first half of fiscal 2010.

Net interest revenue increased 31% to \$199.4 million, due primarily to a 53% increase in average client margin balances and an \$8.8 million increase in net interest revenue from our securities borrowing/lending program in the first half of fiscal 2010 compared to the first half of fiscal 2009. These increases were partially offset by a decrease of 68 basis points in the average yield earned on client margin balances for the first half of fiscal 2010 compared to the first half of fiscal 2009.

Insured deposit account fees increased 9% to \$325.3 million, due primarily to a 93% increase in average client insured deposit account balances during the first half of fiscal 2010 compared to the first half of fiscal 2009. The increased insured deposit account balances are primarily due to our strategy of migrating client cash held in client credit balances or swept to money market mutual funds to the insured deposit account offering beginning in April 2009. In January 2010, we moved an additional \$4.2 billion of client cash held in client credit balances into the insured deposit account offering. The effect of the increased insured deposit account balances was significantly offset by a decrease of 140 basis points in the average yield earned on the insured deposit account assets during the first half of fiscal 2010.

Investment product fees decreased 49% to \$59.8 million, primarily due to a 61% decrease in average money market mutual fund balances and a decrease of 53 basis points in the average yield earned on client money market mutual fund balances in the first half of fiscal 2010 compared to the first half of fiscal 2009. The decrease in average money market mutual fund balances results primarily from our client cash migration strategy discussed above. The decrease in the average yield earned in the first half of fiscal 2010 was primarily due to our decision to voluntarily begin waiving fees on certain money market mutual funds during the first quarter of fiscal 2009 in order to prevent our clients' yields on such funds from becoming negative. The unfavorable impact of the fee waivers on the average yield earned gradually increased during fiscal 2009.

Other revenues increased to \$64.9 million, primarily due to an increase in education revenues as a result of the thinkorswim acquisition.

### **Operating Expenses**

Employee compensation and benefits expense increased 31% to \$311.5 million, primarily due to an increase in average headcount resulting from the thinkorswim acquisition and higher incentive-based compensation related to actual Company and individual performance, including our success in attracting net new client assets, in the first half of fiscal 2010 compared to the first half of fiscal 2009. The average number of full-time equivalent employees increased to 5,262 for the first half of fiscal 2010 compared to 4,609 for the first half of fiscal 2009.

Clearing and execution costs increased 50% to \$46.0 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition.

Communications expense increased 35% to \$49.3 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition, increased telecommunications costs resulting from our migration to a new secondary data center during fiscal 2009 and additional costs for quotes and market information related to organic client account growth since the first half of fiscal 2009.

Occupancy and equipment costs increased 15% to \$68.7 million due to upgrades to our technology infrastructure and facilities and due to the addition of thinkorswim occupancy and equipment costs.

Depreciation and amortization increased 22% to \$27.1 million, due primarily to depreciation on recent technology infrastructure upgrades and leasehold improvements and due to depreciation of assets recorded in the thinkorswim acquisition.

Amortization of acquired intangible assets increased 65% to \$50.6 million, due to amortization of intangible assets recorded in the thinkorswim acquisition.

Professional services increased 32% to \$65.2 million, primarily due to higher usage of consulting and contract services in connection with new product development and technology infrastructure upgrades, as well as the acquisition and integration of thinkorswim.

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Advertising expense increased 37% to \$136.8 million, primarily due to marketing support for the thinkorswim business.

Other operating expenses increased 92% to \$38.9 million, primarily due to additional expenses related to the thinkorswim business, including education travel and venue costs, and due to increased arbitration and regulatory expenses in the first half of fiscal 2010 compared to the first half of fiscal 2009.

### **Other Expenses and Income Taxes**

Interest on borrowings decreased 6% to \$22.6 million, due primarily to lower average debt outstanding during the first half of fiscal 2010 compared to the first half of fiscal 2009. Our average debt outstanding was approximately \$1.33 billion during the first half of fiscal 2010, compared to \$1.45 billion during the first half of fiscal 2009.

Loss on debt refinancing of \$8.4 million consists of a charge to write off the unamortized balance of debt issuance costs associated with the Term A and Term B credit facilities under our January 23, 2006 credit agreement. On November 25, 2009, we refinanced our long-term debt by issuing the Senior Notes and used the proceeds from the issuance of the Senior Notes, together with cash on hand, to repay in full the outstanding principal under our January 23, 2006 credit agreement.

Our effective income tax rate was 31.6% for the first half of fiscal 2010, compared to 39.7% for the first half of fiscal 2009. The effective tax rate for the first half of fiscal 2010 was unusually low due to \$28.8 million of favorable resolutions of certain federal and state income tax matters during the first half of fiscal 2010. These items favorably impacted our earnings for the first half of fiscal 2010 by approximately \$0.05 per share. The effective tax rate for the first half of fiscal 2009 was slightly higher than normal due to unfavorable deferred income tax adjustments of \$5.9 million resulting from state income tax law changes and capital loss limitations on certain money market mutual fund holdings. These items unfavorably impacted our earnings for the first half of fiscal 2009 by approximately \$0.01 per share.

### **LIQUIDITY AND CAPITAL RESOURCES**

We have historically financed our liquidity and capital needs primarily through the use of funds generated from operations and from borrowings under our credit agreements. We have also issued common stock and long-term debt to finance mergers and acquisitions and for other corporate purposes. Our liquidity needs during the first half of fiscal 2010 were financed primarily from our earnings and cash on hand. We plan to finance our operational capital and liquidity needs during the remainder of fiscal 2010 primarily from our earnings, cash and short-term investments on hand and, if necessary, borrowings on our parent company and broker-dealer credit facilities.

On July 20, 2009, our broker-dealer subsidiary, TD AMERITRADE, Inc. ( TDA Inc. ), entered into settlement agreements with the SEC and other regulatory authorities, in which we agreed to extend an offer to purchase eligible auction rate securities ( ARS ) from certain current and former account holders. The offer commenced on August 10, 2009. The final phase of the offer expired on March 23, 2010 and TDA Inc. completed the repurchases on March 30, 2010. Through March 31, 2010, TDA Inc. purchased eligible ARS with an aggregate par value of approximately \$305 million. ARS are long-term variable rate securities tied to short-term interest rates that are reset through a Dutch auction process. In February 2008, the Dutch auction process failed and holders were no longer able to liquidate their holdings through the auction process. Funds from ARS are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities mature. Substantial delays in the sale or redemption of our ARS holdings could adversely affect our liquidity and require us to borrow on our lines of credit or seek alternative financing. As of March 31, 2010, TDA Inc. held ARS with a fair value of approximately \$288 million.

Dividends from our subsidiaries are a source of liquidity for the parent company. Some of our subsidiaries are subject to requirements of the SEC, the Financial Industry Regulatory Authority ( FINRA ), the Commodity Futures Trading Commission ( CFTC ), the National Futures Association ( NFA ) and other regulators relating to liquidity, capital standards and the use of client funds and securities, which may limit funds available for the payment of dividends to the parent company.

Under the SEC's Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934), our broker-dealer subsidiaries are required to maintain, at all times, at least the minimum level of net capital required under Rule 15c3-1. For clearing broker-dealers, this minimum net capital level is determined by a calculation

described in Rule 15c3-1 that is primarily based on each broker-dealer's aggregate debits, which primarily are a function of client margin balances at our clearing broker-dealer subsidiary. Since our aggregate debits may fluctuate significantly, our minimum net capital requirements may also fluctuate significantly from period to period. The parent company may make cash capital contributions to broker-dealer subsidiaries, if necessary, to meet minimum net capital requirements.

**Table of Contents****Liquid Assets**

We consider liquid assets an important measure of our liquidity and of our ability to fund corporate investing and financing activities. Liquid assets is a non-GAAP financial measure. We define liquid assets as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments, (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 5% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of 120% of the minimum dollar net capital requirement or in excess of 8 1/3% of aggregate indebtedness and (d) Tier 1 capital of our trust company in excess of the minimum dollar requirement. We include the excess capital of our broker-dealer and trust company subsidiaries in liquid assets, rather than simply including broker-dealer and trust cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer and trust subsidiaries to the parent company. Excess capital, as defined under clauses (c) and (d) above, is generally available for dividend from the broker-dealer and trust subsidiaries to the parent company. Liquid assets should be considered as a supplemental measure of liquidity, rather than as a substitute for cash and cash equivalents. The following table sets forth a reconciliation of cash and cash equivalents, which is the most directly comparable GAAP measure, to liquid assets (dollars in thousands):

|   | <b>March 31,<br/>2010</b> | <b>September<br/>30,<br/>2009</b> | <b>Change</b> |
|---|---------------------------|-----------------------------------|---------------|
| Cash and cash equivalents                     | \$ 833,580                | \$ 791,211                        | \$ 42,369     |
| Less: Broker-dealer cash and cash equivalents | (443,329)                 | (473,996)                         | 30,667        |
| Trust company cash and cash equivalents       | (82,331)                  | (25,143)                          | (57,188)      |
| Investment advisory cash and cash equivalents | (23,401)                  | (18,935)                          | (4,466)       |
| Corporate cash and cash equivalents           | 284,519                   | 273,137                           | 11,382        |
| Plus: Corporate short-term investments        |                           | 49,496                            | (49,496)      |
| Excess trust Tier 1 capital                   | 3,120                     | 4,658                             | (1,538)       |
| Excess broker-dealer regulatory net capital   | 910,340                   | 814,836                           | 95,504        |
| Liquid assets                                 | \$ 1,197,979              | \$ 1,142,127                      | \$ 55,852     |

The increase in liquid assets is summarized as follows (dollars in thousands):

|  |              |
|--|--------------|
| Liquid assets as of September 30, 2009                                 | \$ 1,142,127 |
| Plus: Pre-tax income   | 436,909      |
| Proceeds from exercise of stock options                                | 8,260        |
| Proceeds from the issuance of long-term debt                           | 1,248,557    |
| Other changes in working capital and regulatory net capital            | 2,202        |
| Less: Income taxes paid  | (103,331)    |
| Purchase of property and equipment                                     | (38,391)     |
| Purchase of treasury stock   | (4,450)      |
| Principal payments on long-term debt and capital lease obligations     | (1,417,733)  |
| Payment of debt issuance costs   | (10,032)     |
| Additional net capital requirement due to increase in aggregate debits | (66,139)     |
| Liquid assets as of March 31, 2010                                     | \$ 1,197,979 |

### **Loan Facilities**

*Senior Notes* On November 25, 2009 we 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.

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On November 25, 2009, we 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 our January 23, 2006 credit agreement. 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 our 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 TDAOH are the general senior unsecured obligations of the Company and TDAOH.

We 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, 30 basis points in the case of the 2014 Notes and 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* We are exposed to changes in the fair value of our fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, on December 30, 2009, we 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, we receive semi-annual fixed-rate interest payments based on the same rates applicable to the 2012 Notes and 2014 Notes, and make 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. For the six months ended March 31, 2010, we recorded a \$14.9 million gain for the change in fair value of the interest rate swaps and an offsetting \$14.9 million fair value loss on the hedged fixed-rate debt. The offsetting fair value gains and losses were recorded in interest on borrowings on the Condensed Consolidated Statements of Income.

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. As of March 31, 2010, we had possession of \$15.1 million of collateral from the interest rate swap counterparty, in the form of U.S. Treasury securities.

*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 our option, (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 our public debt ratings. We are 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 our public debt ratings. As of March 31, 2010, 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 our current Standard & Poor's public debt rating of BBB+. There were no borrowings

outstanding under the Restated Revolving Facility as of March 31, 2010.

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.

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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 our assets and the assets of our subsidiaries, subject to certain exceptions. We are also required to maintain compliance with a maximum consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant, and our broker-dealer subsidiaries are required to maintain compliance with a minimum regulatory net capital covenant. We are 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. We were in compliance with all covenants under the Restated Credit Agreement as of March 31, 2010.

**Broker-dealer Credit Facilities** Our wholly-owned broker-dealer subsidiaries had access to secured uncommitted credit facilities with financial institutions of up to \$630 million as of March 31, 2010 and September 30, 2009. The broker-dealer subsidiaries also had access to unsecured uncommitted credit facilities of up to \$150 million as of March 31, 2010 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 us 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 March 31, 2010 and September 30, 2009. As of March 31, 2010 and September 30, 2009, approximately \$780 million was available to our broker-dealer subsidiaries pursuant to uncommitted credit facilities for either loans or, in some cases, letters of credit.

### **Stock Repurchase Authorization**

On August 11, 2009, our board of directors authorized the repurchase of up to 15 million shares of our common stock in the event management determines to initiate repurchases. No repurchase program has been initiated and no shares have been repurchased under this authorization.

### **Contractual Obligations**

The following items constitute material changes in our contractual obligations outside the ordinary course of business since September 30, 2009:

On November 25, 2009, we issued Senior Notes and repaid the outstanding principal under our January 23, 2006 credit agreement, as described above under **Loan Facilities**.

Our income taxes payable decreased from \$358.6 million as of September 30, 2009 to \$202.5 million as March 31, 2010. Income taxes payable as of March 31, 2010 primarily consists of liabilities for uncertain tax positions and related interest and penalties. The timing of payments, if any, on liabilities for uncertain tax positions cannot be predicted with reasonable accuracy.

### **Off-Balance Sheet Arrangements**

We enter into guarantees and other off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients and manage our asset-based revenues. For information on these arrangements, see the following sections under Item 1, Financial Statements **Notes to Condensed Consolidated Financial Statements**:

**Auction Rate Securities Matters** and **Guarantees** under Note 7 **COMMITMENTS AND CONTINGENCIES** and **Insured Deposit Account Agreement** under Note 11 **RELATED PARTY TRANSACTIONS**. The IDA agreement accounts for a significant percentage of our revenues (26% of our net revenues for the six months ended March 31, 2010) and enables our clients to invest in an FDIC-insured deposit product without the need for the Company to maintain a bank charter.

## **NEW ACCOUNTING PRONOUNCEMENTS**

### **Recently Adopted Accounting Pronouncements**

**ASC 805** On October 1, 2009, the Company adopted 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

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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 and ASU 2010-06* 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. In January 2010, the Company adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires new disclosures and clarifies existing disclosure requirements about fair value measurements as set forth in ASC 820-10. The adoption of ASC 820-10 and ASU 2010-06 did not have a material impact on the Company's condensed consolidated financial statements.

### **Item 3. 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.

#### **Credit Risk**

Two primary sources of credit risk inherent in our business are client margin lending and securities lending and borrowing. We manage risk on client margin lending by requiring clients to maintain margin collateral in compliance with regulatory and internal guidelines. We monitor required margin levels daily and, pursuant to such guidelines, require our clients to deposit additional collateral, or to reduce positions, when necessary. We continuously monitor client accounts to detect excessive concentration, large orders or positions, patterns of day trading and other activities that indicate increased risk to us. We manage 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 and by participating in a risk-sharing program offered through the Options Clearing Corporation.

The interest rate swaps on our Senior Notes are subject to counterparty credit risk. This 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.

#### **Interest Rate Risk**

As a fundamental part of our brokerage business, we invest in interest-earning assets and are obligated on interest-bearing liabilities. In addition, we earn fees on our insured deposit account arrangement with TD Bank USA, N.A. and TD Bank, N.A. and on money market mutual funds, which are subject to interest rate risk. Changes in interest rates could affect the interest earned on assets differently than interest paid on liabilities. A rising interest rate environment generally results in our earning a larger net interest spread. Conversely, a falling interest rate environment generally results in our earning a smaller net interest spread.

Our most prevalent form of interest rate risk is referred to as "gap" risk. This risk occurs when the interest rates we earn on our assets change at a different frequency or amount than the interest rates we pay on our liabilities. We have an Asset/Liability Committee as the governance body with the responsibility of managing interest rate risk, including gap risk.

We use net interest simulation modeling techniques to evaluate the effect that changes in interest rates might have on pre-tax income. Our model includes all interest-sensitive assets and liabilities of the Company and interest-sensitive assets and liabilities associated with the insured deposit account agreement. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely predict the impact that changes in interest rates will have on pre-tax income. Actual results may differ from simulated results due to differences in timing and frequency of rate changes, changes in market conditions and changes in management strategy that lead to changes in the mix of interest-sensitive assets and liabilities.

During fiscal 2009, the Federal Open Market Committee lowered the federal funds rate to between 0% and 0.25%.

Due to the near-zero short-term interest rate environment, we have performed a simulation of a hypothetical increase

in interest rates. This simulation assumes that the asset and liability structure of the Condensed Consolidated Balance Sheet and the insured deposit account arrangement would not be changed as a result of a simulated change in interest rates. The result of the simulation based on our financial position as of March 31, 2010 indicates that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in approximately \$105 million higher pre-tax income.

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**Other Market Risks**

Our revenues and financial instruments are denominated in U.S. dollars. We generally do not enter into derivative transactions, except for hedging purposes.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

Management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of March 31, 2010. Management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2010.

**Changes in Internal Control over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II OTHER INFORMATION**

**Item 1. Legal Proceedings**

**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. 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. The parties participated in a mediation on April 7, 2010 and discussed possible terms of a new settlement. The settlement discussions are continuing. The Company is unable to predict the outcome or the timing of the ultimate resolution of this matter, or the eventual loss that may result from this matter.

**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, at par, 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 did not extend to clients who purchased ARS through independent registered investment advisors or through another firm and transferred such securities to TDA Inc. 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. agreed to 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. The final phase of the offer expired on March 23, 2010 and TDA Inc. completed the repurchases on March 30, 2010. Through March 31, 2010, TDA Inc. purchased eligible ARS with an aggregate par value of approximately \$305 million. The Company accounted 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 September 30, 2009, a liability of \$13.8 million for this guarantee was included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets. There is no liability recorded on the Condensed Consolidated

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Balance Sheet as of March 31, 2010, due to the completion of the offer. On March 30, 2010, the Company recorded a gain of \$0.5 million based on the final fulfillment of the guarantee. The gain is included in gains on money market funds and client guarantees on the Condensed Consolidated Statements of Income. As of March 31, 2010, TDA Inc. held ARS with a fair value of approximately \$288 million.

*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 held shares in these funds, which are being liquidated by The Reserve. 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. Through March 31, 2010, Reserve Yield Plus Fund shareholders have received distributions totaling approximately \$0.94 per share. The Company is unable to predict the outcome or the timing of the ultimate resolution of this matter, or the potential loss, if any, that may result from this matter.

*Other Legal and Regulatory Matters* The Company is subject to other lawsuits, arbitrations, claims and other legal proceedings in connection with its business. Some of these 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 these 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 potential losses, if any, 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 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 potential fines, penalties or injunctive or other equitable relief, if any, that may result from these matters.

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

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Item 1A – Risk Factors in our annual report on Form 10-K for the year ended September 30, 2009, which could materially affect our business, financial condition or future results of operations. The risks described in our Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

There have been no material changes from the risk factors disclosed in the Company's Form 10-K for the fiscal year ended September 30, 2009.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities****ISSUER PURCHASES OF EQUITY SECURITIES**

| Period           |                                   | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Program | Maximum<br>Number<br>of Shares that<br>May<br>Yet Be<br>Purchased<br>Under the<br>Program |
|------------------|-----------------------------------|---|---------------------------------------|---|---|
| January 1, 2010  | January 31, 2010                  | 19,540                                    | \$ 18.71                              |   | N/A   |
| February 1, 2010 | February 28, 2010                 | 13,728                                    | \$ 18.22                              |   | N/A   |
| March 1, 2010    | March 31, 2010                    | 32,327                                    | \$ 18.72                              |   | N/A   |
| Total            | Three months ended March 31, 2010 | 65,595                                    | \$ 18.61                              |   |   |

All of the shares purchased during the quarter ended March 31, 2010, were repurchased from employees for income tax withholding in connection with restricted stock unit distributions, restricted stock award distributions and stock distributions under the Company's Executive Deferred Compensation Program. There were no stock repurchase programs in effect and no programs expired during the second quarter of fiscal 2010.

**Item 5. Other Information****Submission of Matters to a Vote of Security Holders**

The Company held its Annual Meeting of Stockholders on February 25, 2010. Four persons were nominated by the Company's board of directors to serve as Class II directors for terms of three years. There was no solicitation in opposition to the nominees proposed to be elected in the Proxy Statement. The following sets forth the results of the election of directors:

| Name of Nominee     | FOR         | WITHHELD   |
|---------------------|-------------|------------|
| Marshall A. Cohen   | 506,513,517 | 26,118,041 |
| William H. Hatanaka | 474,353,749 | 58,277,809 |
| J. Peter Ricketts   | 472,239,476 | 60,392,082 |
| Allan R. Tessler    | 527,709,015 | 4,922,543  |

A proposal to ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2010, was approved as follows:

| FOR         | AGAINST | ABSTENSIONS |
|-------------|---------|-------------|
| 554,742,902 | 239,888 | 74,713      |

A proposal to approve the amendment and restatement of the Company's Long-Term Incentive Plan was approved as follows:

| FOR         | AGAINST    | ABSTENSIONS<br>AND BROKER<br>NON-VOTES |
|-------------|------------|--|
| 502,250,199 | 30,273,457 | 22,533,847                             |

**Item 6. Exhibits**

- 3.1 Amended and Restated Certificate of Incorporation of TD AMERITRADE Holding Corporation, dated January 24, 2006 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on January 27,

2006)

- 3.2 Amended and Restated By-Laws of TD AMERITRADE Holding Corporation, effective March 9, 2006 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on March 15, 2006)
- 4.1 First Supplemental Indenture, dated November 25, 2009, among TD AMERITRADE Holding Corporation, TD AMERITRADE Online Holdings Corp., as guarantor, and The Bank of New York Mellon Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on November 25, 2009)

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- 4.2 Form of 2.950% Senior Note due 2012 (included in Exhibit 4.1)
- 4.3 Form of 4.150% Senior Note due 2014 (included in Exhibit 4.1)
- 4.4 Form of 5.600% Senior Note due 2019 (included in Exhibit 4.1)
- 10.1 TD AMERITRADE Holding Corporation Long-Term Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on March 1, 2010)
- 10.2 Form of Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on March 1, 2010)
- 10.3 TD AMERITRADE Holding Corporation Management Incentive Plan, as amended effective as of February 24, 2010 (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed on March 1, 2010)
- 15.1 Awareness Letter of Independent Registered Public Accounting Firm
- 31.1 Certification of Fredric J. Tomczyk, Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of William J. Gerber, Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 6, 2010

TD AMERITRADE Holding Corporation  
(Registrant)

By: /s/ FREDRIC J. TOMCZYK  
Fredric J. Tomczyk  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

By: /s/ WILLIAM J. GERBER  
William J. Gerber  
*Executive Vice President, Chief*  
*Financial Officer*  
*(Principal Financial and Accounting*  
*Officer)*