TD AMERITRADE HOLDING CORP
Form 10-Q
February 04, 2011

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

FORM 10-Q

(Mark One)

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

for the quarterly period ended December 31, 2010
OR

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

for the transition period from __________ to **__________**
Commission file number: 0-49992

TD Ameritrade Holding Corporation
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

As of January 27, 2011, there were 573,769,164 outstanding shares of the registrant s common stock.

TD AMERITRADE HOLDING CORPORATION

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
TD Ameritrade Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD Ameritrade Holding Corporation (the Company) as of December 31, 2010, and the related condensed consolidated statements of income and cash flows for the three-month periods ended December 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, 2010, 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 19, 2010, 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, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP
Minneapolis, Minnesota
February 4, 2011

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	December 31, 2010 (Unaudited)	September 30, 2010
ASSETS		
Cash and cash equivalents	$ 893,383	$ 741,492
Short-term investments	3,595	3,592
Cash and investments segregated in compliance with federal regulations	527,343	994,026
Receivable from brokers, dealers and clearing organizations	944,822	1,207,723
Receivable from clients net of allowance for doubtful accounts	8,315,435	7,391,432
Receivable from affiliates	100,426	92,946
Other receivables net of allowance for doubtful accounts	67,146	68,928
Securities owned, at fair value	198,341	217,234
Property and equipment net of accumulated depreciation and amortization	286,012	272,211
Goodwill	2,467,013	2,467,013
Acquired intangible assets net of accumulated amortization	1,096,887	1,124,259
Deferred income taxes	9,407	9,915
Other assets	122,832	136,147
Total assets	$ 15,032,642	$ 14,726,918
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 1,797,810	$ 1,934,315
Payable to clients	7,011,564	6,810,391
Accounts payable and accrued liabilities	490,834	476,306
Payable to affiliates	3,604	3,244
Deferred revenue	57,029	63,512
Long-term debt	1,282,817	1,302,269
Capitalized lease obligations	18,854	20,799
Deferred income taxes	350,765	344,203
Total liabilities	11,013,277	10,955,039
Stockholders equity:		
Preferred stock, $0.01 par value; 100 million shares authorized, none issued		
Common stock, $0.01 par value; one billion shares authorized; 631,381,860 shares issued; December 31, 2010 573,634,541 outstanding; September 30,	6,314	6,314

2010 576,134,924 outstanding		
Additional paid-in capital	1,558,992	1,390,283
Retained earnings	3,238,664	3,122,305
Treasury stock, common, at cost December 31, 2010 57,747,319 shares; September 30, 2010 55,246,936 shares	(785,110)	(747,271)
Deferred compensation	322	196
Accumulated other comprehensive income	183	52
Total stockholders equity	4,019,365	3,771,879
Total liabilities and stockholders equity	$ 15,032,642	$ 14,726,918

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended December 31,	
	2010	**2009**
Revenues:		
Transaction-based revenues:		
Commissions and transaction fees	$ 292,696	$ 309,388
Asset-based revenues:		
Interest revenue	116,820	101,240
Brokerage interest expense	(1,292)	(1,827)
Net interest revenue	115,528	99,413
Insured deposit account fees	178,471	155,331
Investment product fees	40,697	29,421
Total asset-based revenues	334,696	284,165
Other revenues	28,798	31,065
Net revenues	656,190	624,618
Operating expenses:		
Employee compensation and benefits	162,406	146,639
Clearing and execution costs	23,799	21,905
Communications	26,914	24,659
Occupancy and equipment costs	35,191	34,889
Depreciation and amortization	16,136	13,610
Amortization of acquired intangible assets	24,591	25,580
Professional services	40,316	33,707
Advertising	74,583	65,193
Other	18,167	18,036
Total operating expenses	422,103	384,218
Operating income	234,087	240,400

Other expense:				
Interest on borrowings		10,825		11,629
Loss on debt refinancing				8,392
Total other expense		10,825		20,021
Pre-tax income		223,262		220,379
Provision for income taxes		78,223		84,142
Net income	$	145,039	$	136,237
Earnings per share basic	$	0.25	$	0.23
Earnings per share diluted	$	0.25	$	0.23
Weighted average shares outstanding basic		575,485		587,843
Weighted average shares outstanding diluted		581,243		595,634
Dividends declared per share	$	0.05	$	

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands, except share amounts)

	Three Months Ended December 31,	
	2010	**2009**
Cash flows from operating activities:		
Net income	$ 145,039	$ 136,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,136	13,610
Amortization of acquired intangible assets	24,591	25,580
Deferred income taxes	6,538	30,979
Loss on disposal of property	284	644
Loss on debt refinancing		8,392
Stock-based compensation	8,781	9,181
Excess tax benefits on stock-based compensation	(4,634)	(5,320)
Other, net	60	(346)
Changes in operating assets and liabilities:		
Cash and investments segregated in compliance with federal regulations	466,683	243,012
Receivable from brokers, dealers and clearing organizations	262,901	618,747
Receivable from clients, net	(924,003)	(616,750)
Receivable from/payable to affiliates, net	(7,018)	5,726
Other receivables, net	1,033	11,682
Securities owned	18,893	(251,533)
Other assets	(6,208)	(6,582)
Payable to brokers, dealers and clearing organizations	(136,505)	(487,454)
Payable to clients	201,173	631,217
Accounts payable and accrued liabilities	17,968	(89,480)
Deferred revenue	(6,483)	8,092
Net cash provided by operating activities	85,229	285,634
Cash flows from investing activities:		
Purchase of property and equipment	(30,225)	(20,797)
Cash received in sale of business	5,228	
Purchase of short-term investments		(1,100)
Proceeds from sale and maturity of short-term investments		1,100
Proceeds from redemption of money market funds		11,594

Net cash used in investing activities	(24,997)	(9,203)

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(In thousands, except share amounts)

	Three Months Ended December 31,	
	2010	**2009**
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$	$ 1,248,557
Payment of debt issuance costs		(10,032)
Principal payments on long-term debt		(1,406,500)
Principal payments on capital lease obligations	(1,945)	(3,718)
Proceeds from exercise of stock options; Three months ended December 31, 2010 113,012 shares; 2009 1,599,089 shares	718	5,835
Purchase of treasury stock; Three months ended December 31, 2010 121,487 shares; 2009 159,000 shares	(2,034)	(3,229)
Return of prepayment on structured stock repurchase	118,834	
Payment of cash dividends	(28,680)	
Excess tax benefits on stock-based compensation	4,634	5,320
Net cash provided by (used in) financing activities	91,527	(163,767)
Effect of exchange rate changes on cash and cash equivalents	132	16
Net increase in cash and cash equivalents	151,891	112,680
Cash and cash equivalents at beginning of period	741,492	791,211
Cash and cash equivalents at end of period	$ 893,383	$ 903,891
Supplemental cash flow information:		
Interest paid	$ 18,402	$ 7,701
Income taxes paid	$ 54,003	$ 100,744
Tax benefit on exercises and distributions of stock-based compensation	$ 4,634	$ 9,414
Noncash financing activities:		
Settlement of structured stock repurchase; 3,159,360 shares	$ 50,366	$

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month Periods Ended December 31, 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, 2010.

2. ACQUIRED INTANGIBLE ASSETS

The Company s acquired intangible assets consist of the following as of December 31, 2010 (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	$ 1,229,431	$ (359,273)	$ 870,158
Technology and content	99,161	(22,813)	76,348
Trade names	10,100	(8,028)	2,072
Non-competition agreement	5,486	(2,851)	2,635
Trademark license	145,674		145,674
	$ 1,489,852	$ (392,965)	$ 1,096,887

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

Fiscal Year	Estimated Amortization Expense
2011 Remaining	$ 71,580
2012	92,370
2013	91,102
2014	90,641
2015	89,839
2016	85,544
Thereafter (to 2025)	430,137
Total	$ 951,213

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3. CASH AND CASH EQUIVALENTS

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

	December 31, 2010	September 30, 2010
Corporate	$ 340,845	$ 234,993
Broker-dealer subsidiaries	459,728	426,618
Trust company subsidiary	60,632	50,937
Investment advisory subsidiaries	32,178	28,944
Total	$ 893,383	$ 741,492

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 three months ended December 31, 2010 was 35.0%, compared to 38.2% for the three months December 31, 2009. The provision for income taxes for the three months ended December 31, 2010 was unusually low due to $4.9 million of favorable resolutions of state income tax matters and $1.4 million of favorable deferred income tax adjustments resulting from recent state income tax law changes. These items favorably impacted the Company s earnings for the three months ended December 31, 2010 by approximately $0.01 per share.

5. LONG-TERM DEBT

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

December 31, 2010	**Face Value**	**Unamortized Discount**	**Fair Value Adjustment[1]**	**Net Carrying Value**
Senior Notes:				
2.950% Senior Notes due 2012	$ 250,000	$ (164)	$ 6,093	$ 255,929
4.150% Senior Notes due 2014	500,000	(387)	23,627	523,240
5.600% Senior Notes due 2019	500,000	(614)	N/A	499,386
Total Senior Notes	1,250,000	(1,165)	29,720	1,278,555
Other	4,262	N/A	N/A	4,262
Total long-term debt	$ 1,254,262	$ (1,165)	$ 29,720	$ 1,282,817

September 30, 2010	**Face Value**	**Unamortized Discount**	**Fair Value Adjustment[1]**	**Net Carrying Value**
Senior Notes:				
2.950% Senior Notes due 2012	$ 250,000	$ (185)	$ 9,299	$ 259,114
4.150% Senior Notes due 2014	500,000	(411)	39,936	539,525
5.600% Senior Notes due 2019	500,000	(632)	N/A	499,368
Total Senior Notes	1,250,000	(1,228)	49,235	1,298,007

Other	4,262	N/A	N/A	4,262
Total long-term debt	$ 1,254,262	$ (1,228)	$ 49,235	$ 1,302,269

(1) Fair value adjustments relate to changes in the fair value of the debt while in a fair value hedging relationship. See Interest Rate Swaps below.

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 2.950% Senior Notes due December 1, 2012 (the 2012 Notes) and the 4.150% Senior Notes due December 1, 2014 (the 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. In addition, on January 7, 2011, the Company entered into a fixed-for-variable interest rate swap on the 5.600% Senior Notes due December 1, 2019 (the 2019 Notes) for a notional amount of $500 million, with a maturity date matching the maturity date of the 2019 Notes. The interest rate swaps effectively change the fixed-rate interest on the Senior 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 Senior Notes, and makes quarterly variable-rate interest payments based on three-month LIBOR plus (a) 0.9693% for the swap on the 2012 Notes, (b) 1.245% for the swap on the 2014 Notes and (c) 2.3745% for the swap on the 2019 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 Statements of Income. 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 three months ended December 31, 2010, the Company recorded a $19.5 million loss for the change in fair value of the interest rate swaps on the 2012 Notes and 2014 Notes and an offsetting $19.5 million fair value gain 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):

	December 31, 2010	**September 30, 2010**
Derivatives recorded under the caption Other assets:		
Interest rate swap assets	$ 29,720	$ 49,235

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 agreements related to the interest rate swaps require 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 December 31, 2010 and September 30, 2010, the interest rate swap counterparty for the 2012 Notes and 2014 Notes had pledged $31.2 million and $52.9 million of collateral, respectively, to the Company in the form of U.S. Treasury securities.

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), which requires the maintenance of minimum net capital, as defined. Net capital is calculated for each broker-dealer subsidiary individually. Excess net capital of one broker-dealer subsidiary may not be used to offset a net capital deficiency of another broker-dealer subsidiary. Net capital and the related net capital requirement may fluctuate on a daily basis.

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

	December 31, 2010			**September 30, 2010**		
	Net Capital	**Minimum Net Capital Required**	**Excess Net Capital**	**Net Capital**	**Minimum Net Capital Required**	**Excess Net Capital**
TD Ameritrade Clearing, Inc.	$ 1,190,298	$ 188,917	$ 1,001,381	$ 1,092,692	$ 177,644	$ 915,048
TD Ameritrade, Inc.	223,410	1,000	222,410	142,859	1,000	141,859
	N/A	N/A	N/A	39,039	250	38,789

Bellevue Chicago, LLC						
Totals	$ 1,413,708	$ 189,917	$ 1,223,791	$ 1,274,590	$ 178,894	$ 1,095,696

TD Ameritrade Clearing, Inc. (TDAC) is a clearing broker-dealer and TD Ameritrade, Inc. is an introducing broker-dealer. Prior to October 12, 2010, Bellevue Chicago, LLC (formerly thinkorswim, Inc.) was registered as an introducing broker-dealer. On May 25, 2010, Bellevue Chicago, LLC transferred its introducing broker-dealer business to TD Ameritrade, Inc. On October 12, 2010, the Company withdrew Bellevue Chicago, LLC s registration as a broker-dealer.

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 $22.0 million and $22.3 million as of December 31, 2010 and September 30, 2010, respectively, which exceeded the required Tier 1 capital by $12.0 million and $12.3 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 TD Ameritrade, 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. On December 20, 2010, TD Ameritrade, Inc. received preliminary Court approval of a proposed class settlement agreement between TD Ameritrade, Inc. and plaintiffs Richard Holober and Brad Zigler. Under the proposed settlement, the Company will pay no less than $2.5 million in settlement benefits. Total compensation to be paid to all eligible members of the settlement class will not exceed $6.5 million, inclusive of any award of attorneys fees and costs. In addition, the settlement agreement provides that the Company will retain an independent information technology security consultant to assess whether the Company has met certain information technology security standards. The proposed settlement is subject to final approval by the Court. A hearing on final approval of the proposed settlement is scheduled for April 7, 2011.

Reserve Fund Matters During September 2008, The Reserve, an independent mutual fund company, announced that the net asset value of the Reserve Yield Plus Fund declined below $1.00 per share. The Yield Plus Fund is not a money market mutual fund, but its stated objective was to maintain a net asset value of $1.00 per share. TD Ameritrade, Inc. s clients hold shares in the Yield Plus Fund, which is being liquidated by The Reserve.

On July 23, 2010, The Reserve announced that through that date it had distributed approximately 94.8% of the Yield Plus Fund assets as of September 15, 2008 and that the Yield Plus Fund had approximately $39.7 million in total remaining assets. The Reserve stated that the fund s Board of Trustees has set aside almost the entire amount of the remaining assets to cover potential claims, fees and expenses. The Company estimates that TD Ameritrade, Inc. clients current positions held in the Reserve Yield Plus Fund amount to approximately 79% of the fund, which, if valued based on a $1.00 per share net asset value, would total approximately $47.3 million.

TD Ameritrade, Inc. has received subpoenas and other requests for documents and information from the SEC and other regulatory authorities regarding TD Ameritrade, Inc. s offering of the Yield Plus Fund to clients. TD Ameritrade, Inc. is cooperating with the investigations and requests. On January 27, 2011, TD Ameritrade, Inc. entered into a settlement with the SEC, agreeing to the entry of an Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions (Order). In the Order, the SEC finds that TD Ameritrade, Inc. failed reasonably to supervise its registered representatives with a view to preventing their violations of Section 17(a)(2) of the Securities Act of 1933 in connection with their offer and sale of the Yield Plus Fund. TD Ameritrade, Inc. did not admit or deny any of the findings in the Order, and no fine was imposed. Under the settlement agreement, TD Ameritrade, Inc. agreed to pay $0.012 per share to all eligible current or former clients that purchased shares of the Yield Plus Fund and continue to own those shares. Clients that purchased Yield Plus Fund shares through independent registered investment advisors are not eligible for the payment. The Company estimates that payments to clients under the settlement will total approximately $10 million. The Company had approximately $10 million accrued for this matter as of December 31, 2010.

The Pennsylvania Securities Commission has filed an administrative order against TD Ameritrade, Inc. involving the sale of Yield Plus Fund securities to 21 Pennsylvania clients. An administrative hearing will be held to determine whether there have been violations of certain provisions of the Pennsylvania Securities Act of 1972 and rules thereunder and to determine what, if any, administrative sanctions should be imposed. TD Ameritrade, Inc. is defending the action.

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.* and is pending 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. The motions are pending.

The Company is unable to predict the outcome or the timing of the ultimate resolution of the Pennsylvania action and the Ross lawsuit, or the potential loss, if any, that may result from these unresolved matters. However, management believes 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.

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.

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 in January 2006.

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 December 31, 2010, client excess margin securities of approximately $11.5 billion and stock borrowings of approximately $0.7 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned approximately $1.8 billion and repledged approximately $1.2 billion of that collateral as of December 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 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 12 for a description of a guarantee included in that agreement.

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

Accounting Standards Codification (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.

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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 and other 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.

The following tables present the Company s fair value hierarchy for assets and liabilities measured on a recurring basis as of December 31, 2010 and September 30, 2010 (dollars in thousands):

	As of December 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets:				
Short-term investments:				
U.S. government securities	$	$ 2,496	$	$ 2,496
U.S. government agency debt securities		1,099		1,099
Subtotal Short-term investments		3,595		3,595
Securities owned:				
Auction rate securities			194,523	194,523
Money market and other mutual funds			970	970
Equity securities	864	224		1,088
Municipal debt securities		542		542
Corporate debt securities		534		534
Other debt securities		684		684
Subtotal Securities owned	864	1,984	195,493	198,341
Other assets:				
Interest rate swaps(1)		29,720		29,720
Total assets at fair value	$ 864	$ 35,299	$ 195,493	$ 231,656
Liabilities:				
Securities sold, not yet purchased:				
Equity securities	$ 14,042	$ 18	$	$ 14,060
Municipal debt securities		124		124
Corporate debt securities		15		15
Other debt securities		127		127
Total Securities sold, not yet purchased(2)	$ 14,042	$ 284	$	$ 14,326

(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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	As of September 30, 2010			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Short-term investments:				
U.S. government securities	$	$ 2,494	$	$ 2,494
U.S. government agency debt securities		1,098		1,098
Subtotal Short-term investments		3,592		3,592
Securities owned:				
Auction rate securities			209,288	209,288
Money market and other mutual funds			5,404	5,404
Equity securities	453	10		463
Municipal debt securities		1,487		1,487
Corporate debt securities		487		487
Other debt securities		105		105
Subtotal Securities owned	453	2,089	214,692	217,234
Other assets:				
Interest rate swaps (1)		49,235		49,235
Total assets at fair value	$ 453	$ 54,916	$ 214,692	$ 270,061
Liabilities:				
Securities sold, not yet purchased:				
Equity securities	$ 2,213	$ 14	$	$ 2,227
Municipal debt securities		375		375
Corporate debt securities		378		378
Other debt securities		161		161
Total Securities sold, not yet purchased (2)	$ 2,213	$ 928	$	$ 3,141

(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.

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 ended December 31, 2010 and 2009 (dollars in thousands):

Three Months Ended December 31, 2010

Purchases,

Sales,

	September 30, 2010	Net Gains Included in Earnings[(1)]	Issuances and Settlements, Net	December 31, 2010
Assets:				
Securities owned:				
Auction rate securities	$ 209,288	$ 379	$ (15,144)	$ 194,523
Money market and other mutual funds	5,404		(4,434)	970
Total Securities owned	$ 214,692	$ 379	$ (19,578)	$ 195,493

(1) Net 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 December 31, 2010.

	Three Months Ended December 31, 2009			
	September 30, 2009	Net Gains Included in Earnings[(1)]	Purchases, Sales, Issuances and Settlements, Net	December 31, 2009
Assets:				
Short-term investments:				
Money market mutual funds	$ 50,971	$	$ (11,594)	$ 39,377
Securities owned:				
Auction rate securities	14,579	371	251,707	266,657
Money market and other mutual funds	5,049		(442)	4,607
Subtotal Securities owned	19,628	371	251,265	271,264
Total assets at fair value	$ 70,599	$ 371	$ 239,671	$ 310,641

(1) Net 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 December 31, 2009.

There were no nonfinancial assets or liabilities measured at fair value during the three months ended December 31, 2010 and 2009.

Valuation Techniques

In general, and where applicable, the Company uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to the Company s Level 1 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 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 incorporates interest rate yield curves, which are observable for substantially the full term of the contract. The valuation model is widely accepted in the financial services industry and does not involve significant judgment.

Level 3 Measurements:

Money Market and Other Mutual Funds The fair value of positions in money market and other 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) 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 redemptions and an estimated 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 Senior Notes

As of December 31, 2010, the Company s Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $1.30 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated

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Balance Sheet of $1.28 billion. As of September 30, 2010, the Company s Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $1.34 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $1.30 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):

	Three Months Ended December 31,	
	2010	**2009**
Net income	$ 145,039	$ 136,237
Weighted average shares outstanding basic	575,485	587,843
Effect of dilutive securities:		
Common stock equivalent shares related to stock-based compensation	5,758	7,791
Weighted average shares outstanding diluted	581,243	595,634
Earnings per share basic	$ 0.25	$ 0.23
Earnings per share diluted	$ 0.25	$ 0.23

10. COMPREHENSIVE INCOME

Comprehensive income is as follows (dollars in thousands):

	Three Months Ended December 31,	
	2010	**2009**
Net income	$ 145,039	$ 136,237
Other comprehensive income:		
Foreign currency translation adjustment	131	18
Comprehensive income	$ 145,170	$ 136,255

11. STRUCTURED STOCK REPURCHASE

On August 20, 2010, the Company entered into an agreement with an investment bank counterparty to effect a structured repurchase of up to 12 million shares of its common stock. The Company entered into this structured stock repurchase agreement in order to lower the average cost of acquiring shares of its common stock. Under the terms of the agreement, the Company prepaid $169.2 million to the counterparty, which was recorded as a reduction of additional paid-in capital on the Condensed Consolidated Balance Sheet. Settlement of the transaction occurred on December 1, 2010 and the Company purchased approximately 3.2 million shares for approximately $50.4 million ($15.94 per share). The number of shares the Company purchased from the counterparty and the purchase price were based on the average of the daily volume-weighted average share price of the Company s common stock over the measurement period for the transaction, less a pre-determined discount. Upon settlement of the transaction, the excess prepayment amount of $118.8 million was returned to the Company in cash and was recorded as additional paid-in capital.

12. 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 46.1% of the Company s common stock as of December 31, 2010, of which 45% is permitted to be voted under the terms of the Stockholders Agreement among TD, the Company and certain other stockholders. Pursuant to the Stockholders Agreement, TD has the right to designate five of twelve members of 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.

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Insured Deposit Account Agreement

The Company is party to an insured deposit account (IDA) agreement with TD Bank USA, N.A. (TD Bank USA), TD Bank, N.A. and TD. Under the IDA agreement, TD Bank USA and TD Bank, N.A. (together, 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 the Depository Institutions 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 December 2010, the IDA portfolio was comprised of approximately 5% component (a) investments, 87% component (b) investments and 8% 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 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 $178.5 million and $155.3 million for the three months ended December 31, 2010 and 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 $3.6 million and $2.8 million for the three months ended December 31, 2010 and 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 and $1.2 million of receivables from TDSI as of December 31, 2010 and September 30, 2010, respectively. Payable to brokers, dealers and clearing organizations includes $86.5 million and $40.8 million of payables to TDSI as of December 31, 2010 and September 30, 2010, respectively. The Company earned net interest revenue of $0.9 million and $0.4 million for the three months ended December 31, 2010 and 2009, respectively, associated with securities borrowing and lending with TDSI. The transactions with TDSI are subject to the same collateral requirements as transactions with other counterparties.

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Referral and Strategic Alliance Agreement

TD Ameritrade, Inc. is a party to a referral and strategic alliance agreement with TD Bank, N.A. and TD Wealth Management Services, Inc. (TDWMS). The strategic alliance agreement has a term of five years beginning February 1, 2010 and is automatically renewable for successive three-year terms, provided that it may be terminated by any party after January 1, 2011 upon 180 days prior written notice. Under the agreement, TD Bank, N.A. will promote TD Ameritrade, Inc. s brokerage services to its clients using a variety of marketing and referral programs and TDWMS referred its existing brokerage account clients to TD Ameritrade, Inc. while TDWMS discontinued its brokerage operations. TD Bank, N.A. clients that open brokerage accounts at TD Ameritrade, Inc. and TDWMS clients that elected to transfer their accounts to TD Ameritrade, Inc. are considered program clients. TD Ameritrade, Inc. retains a fee for providing brokerage services to the program clients, and the program s net margin is shared equally between TD Ameritrade, Inc. and TD Bank, N.A. The Company earned pre-tax income associated with the referral and strategic alliance agreement of $0.2 million for the three months ended December 31, 2010.

Cash Management Services Agreement

Pursuant to a cash management services agreement, TD Bank USA provides cash management services to clients of TD Ameritrade, Inc. In exchange for such services, the Company pays TD Bank USA service-based fees agreed upon by the parties. The Company incurred expense associated with the cash management services agreement of $0.2 million for the three months ended December 31, 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 TD Ameritrade, 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 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 TD. There were 8,600 and 23,930 SARs outstanding as of December 31, 2010 and September 30, 2010, respectively, with an approximate value of 0.5 million and $1.1 million, respectively. The indemnification agreement effectively protects the Company against fluctuations in TD s common stock price with respect to the SARs, so there is no net effect on the Company s results of operations resulting from such fluctuations.

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 TD Ameritrade, Inc. After May 1, 2013, either party may terminate this agreement without cause and without penalty by providing 24 months prior written notice. In consideration of the performance by TD of the call center services, the Company pays TD, on a monthly basis, an amount approximately equal to TD s monthly cost. The Company incurred expenses associated with the Canadian call center services agreement of $4.3 million for the three months ended December 31, 2010 and 2009, which is included in professional services expense on the Condensed Consolidated Statements of Income.

TD Waterhouse Canada Order Routing Agreement

TDAC is a party to an order routing agreement with TD Waterhouse Canada Inc. (TDW Canada), a wholly-owned subsidiary of TD. The agreement has a term of four years beginning May 20, 2010, provided that it may be terminated by either party upon 90 days prior written notice. Under the agreement, TDAC provides TDW Canada order routing services for U.S. equity and option orders to U.S. brokers and market centers with which TDW Canada has order execution arrangements. TDAC retains a percentage of the net payment for order flow revenue it receives on TDW

Canada trades and remits the remainder to TDW Canada. The Company earned net payment for order flow revenue associated with the order routing

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agreement of $0.6 million for the three months ended December 31, 2010, which is included in other revenues on the Condensed Consolidated Statements of Income.

TD Waterhouse UK Servicing Agreement

TDAC is a party to a servicing agreement with TD Waterhouse Investor Services (Europe) Limited (TDW UK). The agreement has an initial term of ten years beginning July 16, 2010 and will automatically renew for consecutive two year terms, provided that either party may give written notice of its intent not to renew at least 180 days prior to the end of the initial term or any renewal term. Under the agreement, TDAC provides clearing services to clients of TDW UK that trade in U.S. equity securities. In exchange for such services, TDW UK pays TDAC a per trade commission. The Company earned commission revenues associated with the servicing agreement of $0.1 million for the three months ended December 31, 2010, which is included in commissions and transaction fees on the Condensed Consolidated Statements of Income.

Certificates of Deposit Brokerage Agreement

TD Ameritrade, Inc. is party to a certificates of deposit brokerage agreement with TD Bank USA, under which TD Ameritrade, Inc. acts as agent for its clients in purchasing certificates of deposit from TD Bank USA. Under the agreement, TD Bank USA pays TD Ameritrade, Inc. a placement fee for each certificate of deposit issued in an amount agreed to by both parties. TD Ameritrade, 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 TD Ameritrade, Inc. brokerage account during a specified time period. Under these promotions, TD Ameritrade, 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 these promotional offers of $1.0 million for the three months ended December 31, 2010 and 2009, which is included in advertising expense on the Condensed Consolidated Statements of Income.

Trading Platform Hosting and Services Agreement

On June 11, 2009, immediately following the closing of the Company s acquisition of thinkorswim Group Inc. (thinkorswim), the Company completed the sale of thinkorswim Canada, Inc. (thinkorswim Canada) to TDW 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 uses the thinkorswim trading platform and TD Ameritrade, Inc. provides the services to support the platform. In consideration for the performance by TD Ameritrade, Inc. of all its obligations under this agreement, TDW Canada pays TD Ameritrade, Inc., on a monthly basis, a fee based on average client trades per day and transactional revenues. Fees earned under the agreement are recorded as a reduction of the contingent consideration receivable until the receivable is reduced to zero, and thereafter will be recorded as fee revenue. As of December 31, 2010 and September 30, 2010, $9.6 million and $9.7 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 TD Ameritrade, Inc. client orders to the exchanges. The Company earned $0.5 million of payment for order flow revenues from TD Options LLC for the three months ended December 31, 2009, which is included in commissions and transaction fees on the Condensed Consolidated Statements of Income.

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

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

13. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Senior Notes are jointly and severally and fully and unconditionally guaranteed by TD Ameritrade Online Holdings Corp. (TDAOH), a wholly-owned subsidiary of the Company. 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 DECEMBER 31, 2010
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
Cash and cash equivalents	$ 125,602	$ 29,943	$ 737,838	$	$ 893,383
Cash and investments segregated in compliance with federal regulations			527,343		527,343
Receivable from brokers, dealers and clearing organizations			944,822		944,822
Receivable from clients, net of allowance for doubtful accounts			8,315,435		8,315,435
Investments in subsidiaries	5,349,383	4,899,983	552,128	(10,801,494)	
Receivable from affiliates	843	213,975	109,711	(224,103)	100,426
Goodwill			2,467,013		2,467,013
Acquired intangible assets		145,674	951,213		1,096,887
Other	66,971	5,535	640,976	(26,149)	687,333
Total assets	$ 5,542,799	$ 5,295,110	$ 15,246,479	$ (11,051,746)	$ 15,032,642
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	$	$	$ 1,797,810	$	$ 1,797,810
Payable to clients			7,011,564		7,011,564
Accounts payable and accrued liabilities	96,538	18,217	381,337	(5,258)	490,834
Payable to affiliates	148,341	1,771	77,595	(224,103)	3,604
Long-term debt	1,278,555		4,262		1,282,817
Other		42,319	405,220	(20,891)	426,648
Total liabilities	1,523,434	62,307	9,677,788	(250,252)	11,013,277
Stockholders equity	4,019,365	5,232,803	5,568,691	(10,801,494)	4,019,365

Total liabilities and stockholders equity	$ 5,542,799	$ 5,295,110	$ 15,246,479	$ (11,051,746)	$ 15,032,642

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2010
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
Cash and cash equivalents	$ 67,033	$ 25,058	$ 649,401	$	$ 741,492
Cash and investments segregated in compliance with federal regulations			994,026		994,026
Receivable from brokers, dealers and clearing organizations			1,207,723		1,207,723
Receivable from clients, net of allowance for doubtful accounts			7,391,432		7,391,432
Investments in subsidiaries	5,180,736	4,751,641	543,556	(10,475,933)	
Receivable from affiliates	1,782	218,437	128,147	(255,420)	92,946
Goodwill			2,467,013		2,467,013
Acquired intangible assets		145,674	978,585		1,124,259
Other	91,057	5,902	640,744	(29,676)	708,027
Total assets	$ 5,340,608	$ 5,146,712	$ 15,000,627	$ (10,761,029)	$ 14,726,918
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	$	$	$ 1,934,315	$	$ 1,934,315
Payable to clients			6,810,391		6,810,391
Accounts payable and accrued liabilities	96,578	18,157	366,789	(5,218)	476,306
Payable to affiliates	174,144	1,845	82,675	(255,420)	3,244
Long-term debt	1,298,007		4,262		1,302,269
Other		42,563	410,409	(24,458)	428,514
Total liabilities	1,568,729	62,565	9,608,841	(285,096)	10,955,039
Stockholders equity	3,771,879	5,084,147	5,391,786	(10,475,933)	3,771,879
Total liabilities and stockholders equity	$ 5,340,608	$ 5,146,712	$ 15,000,627	$ (10,761,029)	$ 14,726,918

TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF INCOME

THREE MONTHS ENDED DECEMBER 31, 2010
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
Net revenues	$ 3,825	$ 62	$ 656,174	$ (3,871)	$ 656,190
Operating expenses	3,613	63	422,298	(3,871)	422,103
Operating income (loss)	212	(1)	233,876		234,087
Other expense	10,748		77		10,825
Income (loss) before income taxes and equity in income of subsidiaries	(10,536)	(1)	233,799		223,262
Provision for (benefit from) income taxes	(7,058)	(316)	85,597		78,223
Income (loss) before equity in income of subsidiaries	(3,478)	315	148,202		145,039
Equity in income of subsidiaries	148,517	151,123	8,572	(308,212)	
Net income	$ 145,039	$ 151,438	$ 156,774	$ (308,212)	$ 145,039

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

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
Net revenues	$ 4,767	$ 46	$ 624,599	$ (4,794)	$ 624,618
Operating expenses	2,315	302	386,395	(4,794)	384,218
Operating income (loss)	2,452	(256)	238,204		240,400
Other expense	19,646		375		20,021
Income (loss) before income taxes and equity in income of subsidiaries	(17,194)	(256)	237,829		220,379
Provision for (benefit from) income taxes	(4,273)	(93)	88,508		84,142
Income (loss) before equity in income of subsidiaries	(12,921)	(163)	149,321		136,237
Equity in income of subsidiaries	149,158	149,486		(298,644)	
Net income	$ 136,237	$ 149,323	$ 149,321	$ (298,644)	$ 136,237

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

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
Net cash provided by (used in) operating activities	$ (14,903)	$ 4,885	$ 95,247	$ 85,229
Cash flows from investing activities:				
Purchase of property and equipment			(30,225)	(30,225)
Cash received in sale of business			5,228	5,228
Net cash used in investing activities			(24,997)	(24,997)
Cash flows from financing activities:				
Purchase of treasury stock	(2,034)			(2,034)
Return of prepayment on structured stock repurchase	118,834			118,834
Payment of cash dividends	(28,680)			(28,680)
Other	5,352		(1,945)	3,407

Net cash provided by (used in) financing activities	93,472		(1,945)	91,527
Intercompany investing and financing activities, net	(20,000)		20,000	
Effect of exchange rate changes on cash and cash equivalents			132	132
Net increase in cash and cash equivalents	58,569	4,885	88,437	151,891
Cash and cash equivalents at beginning of period	67,033	25,058	649,401	741,492
Cash and cash equivalents at end of period	$ 125,602	$ 29,943	$ 737,838	$ 893,383

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

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
Net cash provided by (used in) operating activities	$ (24,891)	$ (6,142)	$ 316,667	$ 285,634
Cash flows from investing activities:				
Purchase of property and equipment			(20,797)	(20,797)
Proceeds from redemption of money market funds	24	11,124	446	11,594
Net cash provided by (used in) investing activities	24	11,124	(20,351)	(9,203)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	1,248,557			1,248,557
Payment of debt issuance costs	(10,032)			(10,032)
Principal payments on long-term debt	(1,406,500)			(1,406,500)
Purchase of treasury stock	(3,229)			(3,229)
Other	11,155		(3,718)	7,437
Net cash used in financing activities	(160,049)		(3,718)	(163,767)
Intercompany investing and financing activities, net	165,000	(75,000)	(90,000)	
Effect of exchange rate changes on cash and cash equivalents			16	16
Net increase (decrease) in cash and cash equivalents	(19,916)	(70,018)	202,614	112,680
Cash and cash equivalents at beginning of period	45,291	109,079	636,841	791,211
Cash and cash equivalents at end of period	$ 25,375	$ 39,061	$ 839,455	$ 903,891

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, 2010, 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; the effect of our migration of client cash balances into the insured deposit account offering; our effective income tax rate; and our capital and liquidity needs and our plans to finance such needs.
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; fluctuations in interest rates; stock market fluctuations and changes in client trading activity; credit risk with clients and counterparties; increased competition; systems failures and capacity constraints; network security risks; our ability to service debt obligations; our ability to achieve the benefits of the thinkorswim Group Inc. (thinkorswim) acquisition; new laws and regulations affecting our business; 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, 2010. 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, 2010, contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions.

We believe that the following areas are particularly subject to management s judgments and estimates and could materially affect our results of operations and financial position: valuation of goodwill and acquired intangible assets; valuation of stock-based compensation; estimates of effective income tax rates, deferred income taxes and related valuation allowances; and valuation of guarantees. These areas are discussed in further detail under the heading Critical Accounting Policies and Estimates in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2010.

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

GLOSSARY OF TERMS

In discussing and analyzing our business, we utilize several metrics and other terms that are defined in a Glossary of Terms that is available on our website at www.amtd.com (in the Investors section under the heading Financial Reports) and is included in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2010. Since the issuance of our Form 10-K, the definition of Liquid assets has been renamed Liquid assets regulatory threshold and Liquid assets management target was added as a new metric. We consider our liquid assets metrics to be important measures of our liquidity. Liquid assets management target reflects our liquidity that would be readily available for corporate investing and financing activities under normal operating circumstances, while liquid assets regulatory threshold reflects our liquidity that would be available under unusual operating circumstances. In addition to the updated liquid assets metrics, we added Average client trades per funded account (annualized) as a new metric. The updated definitions are as follows (*italics* within a definition indicate other defined terms that appear elsewhere in the Glossary):

Average client trades per funded account (annualized) *Total trades* divided by the average number of *funded accounts* during the period, annualized based on the number of *trading days* in the fiscal year.

Liquid assets management target Liquid assets management target is a non-GAAP financial measure. We define liquid assets management target as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments and (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 10% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of a minimum operational target established by management ($50 million in the case of our primary introducing broker-dealer, TD Ameritrade, Inc.). We include the excess capital of our broker-dealer subsidiaries in liquid assets management target, rather than simply including broker-dealer cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer subsidiaries to the parent company. Excess capital, as defined under clause (c) above, is generally available for dividend from the broker-dealer subsidiaries to the parent company. We consider liquid assets management target to be a measure that reflects our liquidity that would be readily available for corporate investing and financing activities under normal operating circumstances. *Liquid assets regulatory threshold* is a related metric that reflects our liquidity that would be available for corporate investing and financing activities under unusual operating circumstances. Our liquid assets metrics should be considered as supplemental measures of liquidity, rather than as substitutes for cash and cash equivalents.

Liquid assets regulatory threshold Liquid assets regulatory threshold is a non-GAAP financial measure. We define liquid assets regulatory threshold 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 regulatory threshold, rather than simply including broker-dealer and trust company cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer and trust company 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 company subsidiaries to the parent company. We consider liquid assets regulatory threshold to be a measure that reflects our liquidity that would be available for corporate investing and financing activities under unusual operating circumstances. *Liquid assets management* *target* is a related metric that reflects our liquidity that would be readily available for corporate investing and financing activities under normal operating circumstances. Our liquid assets metrics should be considered as supplemental measures of liquidity, rather than as substitutes for cash and cash equivalents.

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 significantly 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 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.

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 December 31,			
	2010		2009	
EBITDA	**$**	**% of Net Revenue**	**$**	**% of Net Revenue**
EBITDA	$ 274,814	41.9%	$ 271,198	43.4%
Less:				
Depreciation and amortization	(16,136)	(2.5%)	(13,610)	(2.2%)
Amortization of acquired intangible assets	(24,591)	(3.7%)	(25,580)	(4.1%)
Interest on borrowings	(10,825)	(1.6%)	(11,629)	(1.9%)
Provision for income taxes	(78,223)	(11.9%)	(84,142)	(13.5%)
Net income	$ 145,039	22.1%	$ 136,237	21.8%

Our EBITDA increased slightly for the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010 primarily due to a 5% increase in net revenues and the effect of an $8.4 million loss on debt refinancing during the first quarter of fiscal 2010, substantially offset by a 10% increase in total operating expenses. The increase in net revenues was due primarily to growth in average spread-based balances, partially offset by lower net interest margin earned on the spread-based balances and lower average commissions and transaction fees per trade. The increase in total operating expenses was due primarily to increases in employee compensation and benefits, advertising and professional services expenses. Detailed analysis of net revenues and operating expenses is presented later in this discussion.

Operating Metrics

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For the three months ended December 31, 2010, asset-based revenues and transaction-based revenues accounted for 51% and 45% 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.

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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, 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):

	Three months ended December 31, 2010	Three months ended December 31, 2009	Increase/ (Decrease)
Avg. interest-earning assets (excluding conduit business)	$ 12,972	$ 15,522	$ (2,550)
Avg. insured deposit account balances	44,735	32,578	12,157
Avg. spread-based balances	$ 57,707	$ 48,100	$ 9,607
Net interest revenue (excluding conduit business)	$ 115.4	$ 99.2	$ 16.2
Insured deposit account fee revenue	178.5	155.3	23.2
Spread-based revenue	$ 293.9	$ 254.5	$ 39.4
Avg. annualized yield interest-earning assets (excluding conduit business)	3.48%	2.50%	0.98%
Avg. annualized yield insured deposit account fees	1.56%	1.87%	(0.31%)
Net interest margin (NIM)	1.99%	2.07%	(0.08%)

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):

	Interest Revenue (Expense) Three months ended December 31, 2010	Interest Revenue (Expense) Three months ended December 31, 2009	Increase/ (Decrease)
Segregated cash	$ 1.1	$ 2.6	$ (1.5)
Client margin balances	92.8	74.7	18.1
Securities borrowing (excluding conduit business)	22.3	23.0	(0.7)
Other cash and interest-earning investments, net	0.2	0.3	(0.1)
Client credit balances	(0.5)	(1.1)	0.6
Securities lending (excluding conduit business)	(0.5)	(0.3)	(0.2)
Net interest revenue (excluding conduit business)	115.4	99.2	16.2
Securities borrowing conduit business	0.2	0.5	(0.3)
Securities lending conduit business	(0.1)	(0.3)	0.2
Net interest revenue	$ 115.5	$ 99.4	$ 16.1

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	Average Balance Three months ended December 31, 2010	2009	% Change
Segregated cash	$ 3,266	$ 7,823	(58%)
Client margin balances	8,121	6,081	34%
Securities borrowing (excluding conduit business)	532	745	(29%)
Other cash and interest-earning investments	1,053	873	21%
Interest-earning assets (excluding conduit business)	12,972	15,522	(16%)
Securities borrowing conduit business	359	561	(36%)
Interest-earning assets	$ 13,331	$ 16,083	(17%)
Client credit balances	$ 7,970	$ 10,901	(27%)
Securities lending (excluding conduit business)	1,601	1,593	1%
Interest-bearing liabilities (excluding conduit business)	9,571	12,494	(23%)
Securities lending conduit business	359	561	(36%)
Interest-bearing liabilities	$ 9,930	$ 13,055	(24%)

	Avg. Annualized Yield (Cost) Three months ended December 31, 2010	2009	Net Yield Increase/ (Decrease)
Segregated cash	0.13%	0.13%	0.00%
Client margin balances	4.47%	4.81%	(0.34%)
Other cash and interest-earning investments, net	0.09%	0.12%	(0.03%)
Client credit balances	(0.03%)	(0.04%)	0.01%
Net interest revenue (excluding conduit business)	3.48%	2.50%	0.98%
Securities borrowing conduit business	0.28%	0.35%	(0.07%)
Securities lending conduit business	(0.13%)	(0.22%)	0.09%
Net interest revenue	3.39%	2.42%	0.97%

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

	Fee Revenue Three months ended December 31, 2010	2009	Increase/ (Decrease)
Money market mutual fund	$ 3.6	$ 2.8	$ 0.8

Other investment product fees	37.1	26.6	$ 10.5
Total investment product fees	$ 40.7	$ 29.4	$ 11.3

	Average Balance Three months ended December 31, 2010	2009	% Change
Money market mutual fund	$ 8,837	$ 11,942	(26%)
Other fee-based investment balances	63,908	46,516	37%
Total fee-based investment balances	$ 72,745	$ 58,458	24%

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	Average Annualized Yield Three months ended December 31, 2010	2009	Increase/ (Decrease)
Money market mutual fund	0.16%	0.09%	0.07%
Other investment product fees	0.23%	0.22%	0.01%
Total investment product fees	0.22%	0.20%	0.02%

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 December 31, 2010	2009	% Change
Total trades (in millions)	23.62	23.85	(1%)
Average commissions and transaction fees per trade (1)	$ 12.39	$ 12.98	(5%)
Average client trades per day	371,916	378,561	(2%)
Average client trades per total account (annualized)	11.8	12.5	(6%)
Average client trades per funded account (annualized)	17.2	17.9	(4%)
Activity rate total accounts	4.7%	5.0%	(6%)
Activity rate funded accounts	6.8%	7.1%	(4%)
Trading days	63.5	63.0	1%

(1) Average commissions and transaction fees per trade excludes thinkorswim active trader and TD Waterhouse UK businesses.

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 December 31, 2010	2009	% Change
Total accounts (beginning of period)	7,946,000	7,563,000	5%
New accounts opened	164,000	180,000	(9%)
Accounts closed	(73,000)	(68,000)	7%
Total accounts (end of period)	8,037,000	7,675,000	5%
Percentage change during period	1%	1%	
Funded accounts (beginning of period)	5,455,000	5,279,000	3%
Funded accounts (end of period)	5,491,000	5,327,000	3%
Percentage change during period	1%	1%	
Client assets (beginning of period, in billions)	$ 354.8	$ 302.0	17%
Client assets (end of period, in billions)	$ 386.4	$ 318.6	21%
Percentage change during period	9%	5%	

Net new assets (in billions)	$ 9.7	$ 8.7	11%
Net new assets annualized growth rate [1]	11%	12%	(6%)

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

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Condensed Consolidated Statements of Income Data

The following table summarizes certain data from our Condensed Consolidated Statements of Income for analysis purposes (dollars in millions):

	Three months ended December 31, 2010	Three months ended December 31, 2009	% Change
Revenues:			
Transaction-based revenues:			
Commissions and transaction fees	$ 292.7	$ 309.4	(5%)
Asset-based revenues:			
Interest revenue	116.8	101.2	15%
Brokerage interest expense	(1.3)	(1.8)	(29%)
Net interest revenue	115.5	99.4	16%
Insured deposit account fees	178.5	155.3	15%
Investment product fees	40.7	29.4	38%
Total asset-based revenues	334.7	284.2	18%
Other revenues	28.8	31.1	(7%)
Net revenues	656.2	624.6	5%
Operating expenses:			
Employee compensation and benefits	162.4	146.6	11%
Clearing and execution costs	23.8	21.9	9%
Communications	26.9	24.7	9%
Occupancy and equipment costs	35.2	34.9	1%
Depreciation and amortization	16.1	13.6	19%
Amortization of acquired intangible assets	24.6	25.6	(4%)
Professional services	40.3	33.7	20%
Advertising	74.6	65.2	14%
Other	18.2	18.0	1%
Total operating expenses	422.1	384.2	10%
Operating income	234.1	240.4	(3%)
Other expense:			
Interest on borrowings	10.8	11.6	(7%)
Loss on debt refinancing		8.4	(100%)
Total other expense	10.8	20.0	(46%)

Pre-tax income	223.3	220.4	1%
Provision for income taxes	78.2	84.1	(7%)
Net income	$ 145.0	$ 136.2	6%
Other information:			
Effective income tax rate	35.0%	38.2%	
Average debt outstanding	$ 1,273.2	$ 1,378.3	(8%)
Average interest rate incurred on borrowings	3.09%	2.94%	

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.

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Three-Month Periods Ended December 31, 2010 and 2009

Net Revenues

Commissions and transaction fees decreased 5% to $292.7 million, primarily due to lower average commissions and transaction fees per trade and slightly lower average client trades per day. Average commissions and transaction fees per trade decreased to $12.39 per trade for the first quarter of fiscal 2011 from $12.98 for the first quarter of fiscal 2010, primarily due to lower payment for order flow revenue per trade and the mix of client trading activity during the first quarter of fiscal 2011. Average client trades per day decreased 2% to 371,916 for the first quarter of fiscal 2011 compared to 378,561 for the first quarter of fiscal 2010. Average client trades per funded account (annualized) were 17.2 for the first quarter of fiscal 2011 compared to 17.9 for the first quarter of fiscal 2010.

Net interest revenue increased 16% to $115.5 million, due primarily to a 34% increase in average client margin balances, partially offset by a decrease of 34 basis points in the average yield earned on client margin balances for the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010.

Insured deposit account fees increased 15% to $178.5 million, due primarily to a 37% increase in average client insured deposit account balances during the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010. The increased insured deposit account balances are partly due to our success in attracting net new client assets over the past year and partly 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. We began migrating client cash in April 2009 and completed the program in January 2010. 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 partially offset by a decrease of 31 basis points in the average yield earned on the insured deposit account assets during the first quarter of fiscal 2011.

Investment product fees increased 38% to $40.7 million, primarily due to a 37% increase in average other fee-based investment balances and an increase of 7 basis points in the average yield earned on client money market mutual fund balances, partially offset by a 26% decrease in average money market mutual fund balances in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010. The decrease in average money market mutual fund balances resulted primarily from our client cash migration strategy discussed above.

Operating Expenses

Employee compensation and benefits expense increased 11% to $162.4 million, primarily due to higher incentive-based compensation related to Company and individual performance, including our continued success in attracting net new client assets, in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010. The average number of full-time equivalent employees was 5,257 for the first quarter of fiscal 2011 compared to 5,240 for the first quarter of fiscal 2010.

Clearing and execution costs increased 9% to $23.8 million, due primarily to an increase in outsourced clearing fees for our thinkorswim business in the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010.

Communications expense increased 9% to $26.9 million, due primarily to increased costs for quotes and market information during the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010.

Depreciation and amortization increased 19% to $16.1 million, due primarily to depreciation on recent technology infrastructure upgrades and leasehold improvements.

Professional services increased 20% to $40.3 million, primarily due to higher usage of consulting and contract services during the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010 in connection with new product development, technology infrastructure upgrades and the integration of thinkorswim.

Advertising expense increased 14% to $74.6 million, primarily due to the timing of more marketing campaigns earlier in the year during fiscal 2011 compared to fiscal 2010. 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 Expenses and Income Taxes

Interest on borrowings decreased 7% to $10.8 million, due primarily to a decrease of approximately $105 million in average debt outstanding, partially offset by higher average interest rates incurred on our debt during the first quarter of fiscal 2011 compared to the first quarter of fiscal 2010. The average interest rate incurred on our debt was 3.09% for the first quarter of fiscal 2011, compared to 2.94% for the first quarter of fiscal 2010. On January 7, 2011, we entered into a fixed-for-variable interest rate swap on our $500 million 5.600% Senior Notes due 2019. We will incur variable interest under this interest rate swap at a rate equal to three-month LIBOR plus 2.3745%, or approximately 2.65% at the inception of the swap. The entire $1.25 billion of our Senior Notes is now subject to interest rate swaps based on three-month LIBOR. The interest rate swap on the 2019 Notes decreased the weighted-average interest rate incurred on our debt to approximately 1.95% as of January 7, 2011. However, we cannot predict the direction or timing of future changes in interest rates.

Loss on debt refinancing of $8.4 million for the three months ended December 31, 2009, 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 35.0% for the first quarter of fiscal 2011, compared to 38.2% for the first quarter of fiscal 2010. The effective tax rate for the first quarter of fiscal 2011 was unusually low due to $4.9 million of favorable resolutions of state income tax matters and $1.4 million of favorable deferred income tax adjustments resulting from recent state income tax law changes. These items favorably impacted the Company s earnings for the three months ended December 31, 2010 by approximately $0.01 per share. We expect our effective income tax rate to range from 38% to 39% for the remainder of fiscal 2011. 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 the change occurs.

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 quarter of fiscal 2011 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 2011 primarily from our earnings, cash 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. entered into settlement agreements with the Securities and Exchange Commission (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 TD Ameritrade, Inc. completed the repurchases on March 30, 2010. Through March 30, 2010, TD Ameritrade, 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, 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 December 31, 2010, TD Ameritrade, Inc. held ARS with a fair value of approximately $195 million. During January 2011, we received $58 million of ARS redemptions at par value.

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.

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Liquid Assets

We consider our liquid assets metrics to be important measures of our liquidity and of our ability to fund corporate investing and financing activities. Our liquid assets metrics are considered non-GAAP financial measures. We include the excess capital of our broker-dealer and trust company subsidiaries in the calculation of our liquid assets metrics, rather than simply including broker-dealer and trust company cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer and trust company subsidiaries to the parent company. Excess capital, as defined below, is generally available for dividend from the broker-dealer and trust company subsidiaries to the parent company. The liquid assets metrics should be considered as supplemental measures of liquidity, rather than as substitutes for cash and cash equivalents.

We define liquid assets management target as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments and (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 10% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of a minimum operational target established by management ($50 million in the case of our primary introducing broker-dealer, TD Ameritrade, Inc.). We consider liquid assets management target to be a measure that reflects our liquidity that would be readily available for corporate investing or financing activities under normal operating circumstances.

We define liquid assets regulatory threshold 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 consider liquid assets regulatory threshold to be a measure that reflects our liquidity that would be available for corporate investing or financing activities under unusual operating circumstances.

The following table sets forth a reconciliation of cash and cash equivalents, which is the most directly comparable GAAP measure, to our liquid assets metrics (dollars in thousands):

	Liquid Assets - Management Target			Liquid Assets - Regulatory Threshold		
	Dec. 31, 2010	Sept. 30, 2010	Change	Dec. 31, 2010	Sept. 30, 2010	Change
Cash and cash equivalents	$ 893,383	$ 741,492	$ 151,891	$ 893,383	$ 741,492	$ 151,891
Less: Broker-dealer cash and cash equivalents	(459,728)	(426,618)	(33,110)	(459,728)	(426,618)	(33,110)
Trust company cash and cash equivalents	(60,632)	(50,937)	(9,695)	(60,632)	(50,937)	(9,695)
Investment advisory cash and cash equivalents	(32,178)	(28,944)	(3,234)	(32,178)	(28,944)	(3,234)
Corporate cash and cash equivalents	340,845	234,993	105,852	340,845	234,993	105,852
Plus: Excess trust company Tier 1 capital				12,039	12,284	(245)
Excess broker-dealer regulatory net capital	419,125	326,368	92,757	940,216	828,979	111,237
Liquid assets	$ 759,970	$ 561,361	$ 198,609	$ 1,293,100	$ 1,076,256	$ 216,844

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

	Liquid Assets	
	Management Target	Regulatory Threshold
Liquid assets as of September 30, 2010	$ 561,361	$ 1,076,256
Plus: Pre-tax income	223,262	223,262
Proceeds from exercise of stock options	718	718
Cash received in sale of business	5,228	5,228
Return of prepayment on structured stock repurchase	118,834	118,834
Other changes in working capital and regulatory net capital	23,816	13,870
Less: Income taxes paid	(54,003)	(54,003)
Purchase of property and equipment	(30,225)	(30,225)
Purchase of treasury stock	(2,034)	(2,034)
Principal payments on capital lease obligations	(1,945)	(1,945)
Payment of cash dividends	(28,680)	(28,680)
Additional net capital requirement due to increase in aggregate debits	(56,362)	(28,181)
Liquid assets as of December 31, 2010	$ 759,970	$ 1,293,100

Stock Repurchase Programs

On August 5, 2010, our board of directors authorized the repurchase of up to 30 million shares of our common stock. On August 20, 2010, we entered into an agreement with an investment bank counterparty to effect a structured repurchase of up to 12 million shares of our common stock. Under the terms of this agreement, we prepaid $169.2 million to the counterparty. Settlement of the transaction occurred on December 1, 2010 and we purchased approximately 3.2 million shares for approximately $50.4 million ($15.94 per share). The number of shares we purchased from the counterparty and the purchase price were based on the average of the daily volume-weighted average share price of our common stock over the measurement period for the transaction, less a pre-determined discount. Upon settlement of this transaction, the excess prepayment amount of $118.8 million was returned to us in cash. As of December 31, 2010, we had approximately 26.8 million shares remaining on the stock repurchase authorization.

Cash Dividends

Our board of directors declared a $0.05 per share quarterly cash dividend on our common stock during each of the first and second quarters of fiscal 2011. On December 15, 2010 we paid $28.7 million to fund the first quarter dividend and we expect to pay approximately $29 million on February 15, 2011 to fund the second quarter dividend.

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: Guarantees under Note 7 COMMITMENTS AND CONTINGENCIES and Insured Deposit Account Agreement under Note 12 RELATED PARTY TRANSACTIONS. The IDA agreement accounts for a significant percentage of our revenues (27% of our net revenues for the quarter ended December 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.

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.

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Market-related 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. Credit risk on derivative financial instruments 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 agreements related to the interest rate swaps require 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 arrangement. 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.

The simulations assume that the asset and liability structure of our 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 results of the simulations based on our financial position as of December 31, 2010 indicate that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in approximately $99 million higher pre-tax income, while a gradual 1% (100 basis points) decrease in interest rates over a 12-month period would result in approximately $29 million lower pre-tax income. The results of the simulations reflect the fact that short-term interest rates remain at historically low levels, including the federal funds target rate, which is currently a range of zero to 0.25%.

Market Risk on Auction Rate Securities

As of December 31, 2010, we held ARS with a fair value of $195 million. A hypothetical 10% decrease in the fair value of our ARS would reduce our pre-tax income by approximately $19 million.

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 December 31, 2010. Management, including the Chief Executive

Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 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 TD Ameritrade, 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. On December 20, 2010, TD Ameritrade, Inc. received preliminary Court approval of a proposed class settlement agreement between TD Ameritrade, Inc. and plaintiffs Richard Holober and Brad Zigler. Under the proposed settlement, the Company will pay no less than $2.5 million in settlement benefits. Total compensation to be paid to all eligible members of the settlement class will not exceed $6.5 million, inclusive of any award of attorneys fees and costs. In addition, the settlement agreement provides that the Company will retain an independent information technology security consultant to assess whether the Company has met certain information technology security standards. The proposed settlement is subject to final approval by the Court. A hearing on final approval of the proposed settlement is scheduled for April 7, 2011.

Reserve Fund Matters During September 2008, The Reserve, an independent mutual fund company, announced that the net asset value of the Reserve Yield Plus Fund declined below $1.00 per share. The Yield Plus Fund is not a money market mutual fund, but its stated objective was to maintain a net asset value of $1.00 per share. TD Ameritrade, Inc. s clients hold shares in the Yield Plus Fund, which is being liquidated by The Reserve.

On July 23, 2010, The Reserve announced that through that date it had distributed approximately 94.8% of the Yield Plus Fund assets as of September 15, 2008 and that the Yield Plus Fund had approximately $39.7 million in total remaining assets. The Reserve stated that the fund s Board of Trustees has set aside almost the entire amount of the remaining assets to cover potential claims, fees and expenses. The Company estimates that TD Ameritrade, Inc. clients current positions held in the Reserve Yield Plus Fund amount to approximately 79% of the fund, which, if valued based on a $1.00 per share net asset value, would total approximately $47.3 million.

TD Ameritrade, Inc. has received subpoenas and other requests for documents and information from the SEC and other regulatory authorities regarding TD Ameritrade, Inc. s offering of the Yield Plus Fund to clients. TD Ameritrade, Inc. is cooperating with the investigations and requests. On January 27, 2011, TD Ameritrade, Inc. entered into a settlement with the SEC, agreeing to the entry of an Order Instituting Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions (Order). In the Order, the SEC finds that TD Ameritrade, Inc. failed reasonably to supervise its registered representatives with a view to preventing their violations of Section 17(a)(2) of the Securities Act of 1933 in connection with their offer and sale of the Yield Plus Fund. TD Ameritrade, Inc. did not admit or deny any of the findings in the Order, and no fine was imposed. Under the settlement agreement, TD Ameritrade, Inc. agreed to pay $0.012 per share to all eligible current or former clients that purchased shares of the Yield Plus Fund and continue to own those shares. Clients that purchased Yield Plus Fund shares through independent registered investment advisors are not eligible for the payment. The Company estimates that payments to clients under the settlement will total approximately $10 million. The Company had approximately $10 million accrued for this matter as of December 31, 2010.

The Pennsylvania Securities Commission has filed an administrative order against TD Ameritrade, Inc. involving the sale of Yield Plus Fund securities to 21 Pennsylvania clients. An administrative hearing will be held to determine whether there have been violations of certain provisions of the Pennsylvania Securities Act of 1972 and rules thereunder and to determine what, if any, administrative sanctions should be imposed. TD Ameritrade, Inc. is defending the action.

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.* and is pending 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. The motions are pending.

The Company is unable to predict the outcome or the timing of the ultimate resolution of the Pennsylvania action and the Ross lawsuit, or the potential loss, if any, that may result from these unresolved matters. However, management believes 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.

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, 2010, 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, 2010.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of	Average Price	Total Number of Shares Purchased as Part of Publicly	Maximum Number of Shares that May Yet Be Purchased

	Shares Purchased	Paid per Share	Announced Program	Under the Program
October 1, 2010 October 31, 2010	118,537	$ 16.73		30,000,000
November 1, 2010 November 30, 2010	2,901	$ 17.15		30,000,000
December 1, 2010 December 31, 2010	3,159,409	$ 15.94	3,159,360	26,840,640
Total Three months ended December 31, 2010	3,280,847	$ 15.97	3,159,360	26,840,640

On August 5, 2010, our board of directors authorized the repurchase of up to 30 million shares of our common stock. We disclosed this authorization on August 9, 2010 in our quarterly report on Form 10-Q. On August 20, 2010, we entered into an agreement with an investment bank counterparty to effect a structured repurchase of up to 12 million shares of our common stock. The shares were to be repurchased as part of the 30 million share repurchase authorization. Under the terms of this agreement, we prepaid approximately $169 million to the counterparty. Settlement of the transaction occurred on December 1, 2010 and we purchased approximately 3.2 million shares for approximately $50.4 million ($15.94 per share). The number of shares we purchased from the counterparty and the purchase price were based on the average of the daily volume-weighted average share price of our common stock over the measurement period for the transaction, less a pre-determined discount. Upon settlement of this transaction, the excess prepayment amount of $118.8 million was returned to us in cash. This program was the only stock repurchase program in effect and no programs expired during the first quarter of fiscal 2011.

During the quarter ended December 31, 2010, 121,487 shares were repurchased from employees for income tax withholding in connection with restricted stock unit and restricted stock award distributions.

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)
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	Form of Restricted Stock Unit Agreement for Employees
10.2	Form of Restricted Stock Unit Agreement for Non-employee Directors
14	Code of Ethics
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
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Label
101.PRE	XBRL Taxonomy Extension Presentation

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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: February 4, 2011

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)