TD AMERITRADE HOLDING CORP
Form 10-Q
August 08, 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 June 30, 2011**

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	8**2-0543156**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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 12 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 12 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 Exchange Act). Yes o No þ

As of July 29, 2011, there were 565,393,641 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 June 30, 2011, and the related condensed consolidated statements of income for the three-month and nine-month periods ended June 30, 2011 and 2010, and the condensed consolidated statements of cash flows for the nine-month periods ended June 30, 2011 and 2010. 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
August 8, 2011

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

	June 30, 2011 (Unaudited)	September 30, 2010
ASSETS		
Cash and cash equivalents	$ 1,323,646	$ 741,492
Short-term investments	3,540	3,592
Cash and investments segregated in compliance with federal regulations	377,260	994,026
Receivable from brokers, dealers and clearing organizations	1,033,020	1,207,723
Receivable from clients net of allowance for doubtful accounts	8,714,661	7,393,855
Receivable from affiliates	101,479	90,523
Other receivables net of allowance for doubtful accounts	94,789	68,928
Securities owned, at fair value	65,334	217,234
Property and equipment net of accumulated depreciation and amortization	315,008	272,211
Goodwill	2,466,979	2,467,013
Acquired intangible assets net of accumulated amortization	1,048,731	1,124,259
Deferred income taxes	4,659	9,915
Other assets	141,498	136,147
Total assets	$ 15,690,604	$ 14,726,918
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 2,083,014	$ 1,934,315
Payable to clients	7,269,012	6,810,391
Accounts payable and accrued liabilities	463,651	476,306
Payable to affiliates	3,564	3,244
Deferred revenue	46,288	63,512
Long-term debt	1,290,467	1,302,269
Capitalized lease obligations	12,699	20,799
Deferred income taxes	346,837	344,203
Total liabilities	11,515,532	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; June 30, 2011 567,455,934 outstanding; September 30, 2010 576,134,924 outstanding	6,314	6,314
Additional paid-in capital	1,574,641	1,390,283
Retained earnings	3,510,471	3,122,305

Treasury stock, common, at cost June 30, 2011 63,925,926 shares; September 30, 2010 55,246,936 shares	(916,838)	(747,271)
Deferred compensation	272	196
Accumulated other comprehensive income	212	52
Total stockholders equity	4,175,072	3,771,879
Total liabilities and stockholders equity	$ 15,690,604	$ 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 June 30,		Nine Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Revenues:				
Transaction-based revenues:				
Commissions and transaction fees	$ 281,591	$ 333,081	$ 912,607	$ 943,740
Asset-based revenues:				
Interest revenue	132,334	112,804	371,959	315,457
Brokerage interest expense	(1,052)	(1,422)	(3,581)	(4,694)
Net interest revenue	131,282	111,382	368,378	310,763
Insured deposit account fees	196,817	180,075	562,759	505,370
Investment product fees	43,938	33,194	125,075	92,964
Total asset-based revenues	372,037	324,651	1,056,212	909,097
Other revenues	31,154	34,072	90,382	99,019
Net revenues	684,782	691,804	2,059,201	1,951,856
Operating expenses:				
Employee compensation and benefits	168,564	156,251	500,632	467,767
Clearing and execution costs	22,648	22,387	71,566	68,422
Communications	27,057	27,030	81,782	76,329
Occupancy and equipment costs	36,318	35,452	104,663	104,184
Depreciation and amortization	16,914	14,499	49,629	41,573
Amortization of acquired intangible assets	24,083	25,119	72,747	75,722
Professional services	42,882	31,998	123,257	97,170
Advertising	48,109	51,596	204,092	188,359
Gains on money market funds and client guarantees		(9,209)		(11,145)
Other	35,668	36,420	71,291	75,347
Total operating expenses	422,243	391,543	1,279,659	1,183,728
Operating income	262,539	300,261	779,542	768,128
Other expense:				
Interest on borrowings	6,916	11,197	25,227	33,764
Loss on debt refinancing	1,435		1,435	8,392

Total other expense	8,351	11,197	26,662	42,156
Pre-tax income	254,188	289,064	752,880	725,972
Provision for income taxes	96,793	109,625	278,778	247,743
Net income	$ 157,395	$ 179,439	$ 474,102	$ 478,229
Earnings per share basic	$ 0.28	$ 0.31	$ 0.83	$ 0.81
Earnings per share diluted	$ 0.27	$ 0.30	$ 0.82	$ 0.80
Weighted average shares outstanding basic	570,287	587,086	573,034	588,176
Weighted average shares outstanding diluted	576,784	593,647	579,168	595,221
Dividends declared per share	$ 0.05	$	$ 0.15	$

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)

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Cash flows from operating activities:		
Net income	$ 474,102	$ 478,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,629	41,573
Amortization of acquired intangible assets	72,747	75,722
Deferred income taxes	7,394	159,856
Loss on disposal of property	16,720	2,533
Gains on money market funds and client guarantees		(11,145)
Loss on debt refinancing	1,435	8,392
Stock-based compensation	25,995	25,090
Excess tax benefits on stock-based compensation	(9,370)	(13,095)
Other, net	185	154
Changes in operating assets and liabilities:		
Cash and investments segregated in compliance with federal regulations	616,766	5,323,932
Receivable from brokers, dealers and clearing organizations	174,703	995,686
Receivable from clients, net	(1,323,229)	(1,819,054)
Receivable from/payable to affiliates, net	(7,879)	14,825
Other receivables, net	(23,685)	9,857
Securities owned	151,900	(225,361)
Other assets	(7,945)	(11,982)
Payable to brokers, dealers and clearing organizations	148,699	(517,795)
Payable to clients	458,621	(4,018,506)
Accounts payable and accrued liabilities	(2,125)	(175,866)
Deferred revenue	(17,224)	(304)
Net cash provided by operating activities	807,439	342,741
Cash flows from investing activities:		
Purchase of property and equipment	(109,904)	(61,180)
Cash received in sale of business	5,228	
Cash transferred in disposal of subsidiary	(3,453)	
Purchase of short-term investments	(1,045)	(3,296)
Proceeds from sale and maturity of short-term investments	1,100	3,300
Proceeds from redemption of money market funds		51,478
Purchase of investments	(5,006)	
Other, net	550	(2)
Net cash used in investing activities	(112,530)	(9,700)

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)

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$	$ 1,248,557
Payment of debt issuance costs	(1,783)	(10,595)
Principal payments on long-term debt	(4,262)	(1,410,638)
Principal payments on capital lease obligations	(8,100)	(11,853)
Proceeds from exercise of stock options; Nine months ended June 30, 2011 628,293 shares; 2010 3,362,788 shares	3,204	11,842
Purchase of treasury stock; Nine months ended June 30, 2011 7,068,892 shares; 2010 14,228,369 shares	(144,245)	(248,188)
Return of prepayment on structured stock repurchase	118,834	
Payment of cash dividends	(85,936)	
Excess tax benefits on stock-based compensation	9,370	13,095
Net cash used in financing activities	(112,918)	(407,780)
Effect of exchange rate changes on cash and cash equivalents	163	(9)
Net increase (decrease) in cash and cash equivalents	582,154	(74,748)
Cash and cash equivalents at beginning of period	741,492	791,211
Cash and cash equivalents at end of period	$ 1,323,646	$ 716,463
Supplemental cash flow information:		
Interest paid	$ 35,687	$ 33,847
Income taxes paid	$ 233,713	$ 233,009
Tax benefit on exercises and distributions of stock-based compensation	$ 9,404	$ 17,396
Noncash financing activities:		
Issuance of capital lease obligations	$	$ 6,003
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 and Nine-Month Periods Ended June 30, 2011 and 2010
(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.

Recently Issued Accounting Pronouncements

ASU 2011-04 In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. Generally Accepted Accounting Principles (U.S. GAAP) for measuring fair value and for disclosing information about fair value measurements. Some of the amendments clarify FASB s intent about the application of existing fair value measurement and disclosure requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Therefore, ASU 2011-04 will be effective for the Company s fiscal quarter beginning January 1, 2012 (the Company s second quarter of fiscal 2012). Adoption of ASU 2011-04 is not expected to have a material impact on the Company s financial statements.

ASU 2011-05 In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income.* ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and allows two options for presenting the components of net income and other comprehensive income: (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive statements, consisting of a statement of net income followed by a separate statement of other comprehensive income. ASU 2011-05 requires retrospective application and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Therefore, ASU 2011-05 will be effective for the Company s fiscal year beginning October 1, 2012. The adoption of ASU 2011-05 will change the manner in which the components of other comprehensive income are presented in the financial statements, but is not expected to have any other material impact on the Company s financial statements.

2. ACQUIRED INTANGIBLE ASSETS

The Company s acquired intangible assets consist of the following as of June 30, 2011 (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	$ 1,229,431	$ (397,315)	$ 832,116
Technology and content	99,161	(29,949)	69,212
Trade names	10,100	(10,100)	
Non-competition agreement	5,486	(3,757)	1,729
Trademark license	145,674		145,674
	$ 1,489,852	$ (441,121)	$ 1,048,731

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Estimated future amortization expense for acquired intangible assets outstanding as of June 30, 2011 is as follows (dollars in thousands):

Fiscal Year	Estimated Amortization Expense
2011 Remaining	$ 23,424
2012	92,370
2013	91,102
2014	90,641
2015	89,839
Thereafter (to 2025)	515,681
Total	$ 903,057

3. CASH AND CASH EQUIVALENTS

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

	June 30, 2011	September 30, 2010
Corporate	$ 260,807	$ 234,993
Broker-dealer subsidiaries	982,768	426,618
Trust company subsidiary	38,887	50,937
Investment advisory subsidiaries	41,184	28,944
Total	$ 1,323,646	$ 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 nine months ended June 30, 2011 was 37.0%, compared to 34.1% for the nine months ended June 30, 2010. The provision for income taxes for the nine months ended June 30, 2011 was lower than normal due to $5.5 million of favorable resolutions of state income tax matters and $1.2 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 nine months ended June 30, 2011 by approximately $0.01 per share. The provision for income taxes for the nine months ended June 30, 2010 was unusually low due to $28.8 million of favorable resolutions of certain federal and state income tax matters. These items favorably impacted the Company s earnings for the nine months ended June 30, 2010 by approximately $0.05 per share.

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5. LONG-TERM DEBT

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

June 30, 2011	Face Value	Unamortized Discount	Fair Value Adjustment (1)	Net Carrying Value
Senior Notes:				
2.950% Senior Notes due 2012	$ 250,000	$ (121)	$ 5,547	$ 255,426
4.150% Senior Notes due 2014	500,000	(338)	27,385	527,047
5.600% Senior Notes due 2019	500,000	(580)	8,574	507,994
Total long-term debt	$ 1,250,000	$ (1,039)	$ 41,506	$ 1,290,467

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. As of June 30, 2011, the weighted-average effective interest rate on the Senior Notes was 1.90%.

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. The following table summarizes gains and losses resulting from changes in the fair value of the interest rate swaps and the hedged fixed-rate debt (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Gain (loss) on fair value of interest rate swaps	$ 11,294	$ 13,107	$ (7,729)	$ 27,963
Gain (loss) on fair value of hedged fixed-rate debt	(11,294)	(13,107)	7,729	(27,963)
Net gain (loss) recorded in interest on borrowings	$	$	$	$

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

	June 30, 2011	September 30, 2010
Derivatives recorded under the caption Other assets:		
Interest rate swap assets	$41,506	$ 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 June 30, 2011 and September 30, 2010, the interest rate swap counterparty for the 2012 Notes and 2014 Notes had pledged $36.4 million and $52.9 million of collateral, respectively, to the Company in the form of U.S. Treasury securities. As of June 30, 2011, the interest rate swap counterparty for the 2019 Notes had pledged $10.2 million of collateral to the Company in the form of cash.

TD Ameritrade Holding Corporation Credit Agreement On June 28, 2011, TD Ameritrade Holding Corporation (the Parent) entered into a credit agreement consisting of a senior unsecured revolving credit facility in the aggregate principal amount of $300 million (the Parent Revolving Facility). The Parent Revolving Facility replaced the Parent s prior $300 million unsecured revolving credit facility, which was scheduled to expire on December 31, 2012. The maturity date of the Parent Revolving Facility is June 28, 2014.

The applicable interest rate under the Parent Revolving Facility is calculated as a per annum rate equal to, at the option of the Parent, (a) LIBOR plus an interest rate margin (Parent LIBOR loans) or (b) (i) the highest of (x) the prime rate, (y) the federal funds effective rate plus 0.50% or (z) one-month LIBOR plus 1.00%, plus (ii) an interest rate margin (Base Rate loans). The interest rate margin ranges from 1.25% to 2.25% for Parent LIBOR loans and from 0.25% to 1.25% for Base Rate loans, determined by reference to the Company s public debt ratings. The Parent is obligated to pay a commitment fee ranging from 0.15% to 0.375% on any unused amount of the Parent Revolving Facility, determined by reference to the Parent s public debt ratings. As of June 30, 2011, the interest rate margin would have been 1.50% for Parent LIBOR loans and 0.50% for Base Rate loans, and the commitment fee was 0.20%, each determined by reference to the Parent s Standard & Poor s public debt rating of A-. There were no borrowings outstanding under the Parent Revolving Facility as of June 30, 2011.

The obligations under the Parent Revolving Facility are guaranteed by TD Ameritrade Online Holdings Corp. (TDAOH), a wholly-owned subsidiary of the Parent, and each significant subsidiary (as defined in SEC Rule 1-02(w) of Regulation S-X) of the Parent, other than broker-dealer subsidiaries, futures commission merchant subsidiaries and controlled foreign corporations. Currently, the only subsidiary guarantor of the obligations under the Parent Revolving Facility is TDAOH.

The Parent Revolving Facility contains negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of subsidiaries, mergers, consolidations, transactions with affiliates, change in nature of business and the sale of all or substantially all of the assets of the Company. The Parent is also required to maintain compliance with a maximum consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant, and the Parent s broker-dealer subsidiaries are required to maintain compliance with a minimum regulatory net capital covenant. The Company was in compliance with all covenants under the Parent Revolving Facility as of June 30, 2011.

TD Ameritrade Clearing, Inc. Credit Agreement On June 28, 2011, TD Ameritrade Clearing, Inc. (TDAC), the Company s clearing broker-dealer subsidiary, entered into a credit agreement consisting of a senior unsecured revolving credit facility in the aggregate principal amount of $300 million (the TDAC Revolving Facility). The maturity date of the TDAC Revolving Facility is June 28, 2014.

The applicable interest rate under the TDAC Revolving Facility is calculated as a per annum rate equal to, at the option of TDAC, (a) LIBOR plus an interest rate margin (TDAC LIBOR loans) or (b) the federal funds effective rate plus an interest rate margin (Fed Funds Rate loans). The interest rate margin ranges from 1.00% to 2.00% for both TDAC LIBOR loans and Fed Funds Rate loans, determined by reference to the Company s public debt rating. TDAC is obligated to pay a commitment fee ranging from 0.125% to 0.30% on any unused amount of the TDAC Revolving Facility, determined by reference to the Company s public debt rating. As of June 30, 2011, the interest rate margin would have been 1.25% for both TDAC LIBOR loans and Fed Funds Rate loans, and the commitment fee was 0.15%, each determined by reference to the Parent s public debt rating. There were no borrowings outstanding under the TDAC Revolving Facility as of June 30, 2011.

The TDAC Revolving Facility contains negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of TDAC, mergers, consolidations, change in nature of business and the sale of all or substantially all of the assets of TDAC. TDAC is also required to maintain minimum tangible net worth and is required to maintain compliance with minimum regulatory net capital requirements. TDAC was in compliance with all covenants under the TDAC Revolving Facility as of June 30, 2011.

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):

	June 30, 2011			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.	$ 1,281,958	$ 196,797	$ 1,085,161	$ 1,092,692	$ 177,644	$ 915,048
TD Ameritrade, Inc.	292,747	1,000	291,747	142,859	1,000	141,859
Bellevue Chicago, LLC	N/A	N/A	N/A	39,039	250	38,789
Totals	$ 1,574,705	$ 197,797	$ 1,376,908	$ 1,274,590	$ 178,894	$ 1,095,696

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 $18.4 million and $22.3 million as of June 30, 2011 and September 30, 2010, respectively, which exceeded the required Tier 1 capital by $8.4 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* and a consolidated complaint was filed. 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 was held on April 19, 2011. The Court has not yet ruled on the matter.

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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 was 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 continue to hold shares in the Yield Plus Fund (now known as Yield Plus Fund In Liquidation), which is being liquidated. 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.

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 continued to own those shares. Clients who purchased Yield Plus Fund shares through independent registered investment advisors were not eligible for the payment. In February 2011, the Company paid clients approximately $10 million under the settlement agreement.

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 estimates that its clients current aggregate shortfall, based on the original par value of their holdings in the Yield Plus Fund, less the value of fund distributions to date and the value of payments under the Company s SEC settlement, is approximately $37 million. This amount does not take into account any assets remaining in the fund that may become available for future distributions.

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.

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

Income Taxes The Company s federal and state income tax returns are subject to examination by taxing authorities. Because the application of tax laws and regulations to many types of transactions is subject to varying interpretations, amounts reported in the condensed consolidated financial statements could be significantly changed at a later date upon final determinations by taxing authorities. The Toronto-Dominion Bank (TD) has agreed to indemnify the Company for tax obligations, if any, pertaining to activities of TD Waterhouse Group, Inc. (TD Waterhouse) prior to the Company s acquisition of TD Waterhouse 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 June 30, 2011, client excess margin securities of approximately $12.1 billion and stock borrowings of approximately $0.8 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned approximately $2.0 billion and repledged approximately $1.2 billion of that collateral as of June 30, 2011.

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.

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.

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The following tables present the Company s fair value hierarchy for assets and liabilities measured on a recurring basis as of June 30, 2011 and September 30, 2010 (dollars in thousands):

	As of June 30, 2011			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Short-term investments:				
U.S. government securities	$	$ 2,500	$	$ 2,500
U.S. government agency debt securities		1,040		1,040
Subtotal Short-term investments		3,540		3,540
Securities owned:				
Auction rate securities			61,951	61,951
Money market and other mutual funds			1,067	1,067
Equity securities	678	437		1,115
U.S. government debt securities		24		24
Municipal debt securities		462		462
Corporate debt securities		459		459
Other debt securities		256		256
Subtotal Securities owned	678	1,638	63,018	65,334
Other assets:				
Interest rate swaps(1)		41,506		41,506
Total assets at fair value	$ 678	$ 46,684	$ 63,018	$ 110,380
Liabilities:				
Accounts payable and accrued liabilities:				
Securities sold, not yet purchased:				
Equity securities	$ 6,927	$ 1	$	$ 6,928
U.S. government debt securities		16		16
Municipal debt securities		172		172
Corporate debt securities		9		9
Total liabilities at fair value	$ 6,927	$ 198	$	$ 7,125

(1) See Interest Rate Swaps in Note 5 for details.

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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:				
Accounts payable and accrued 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 liabilities at fair value	$ 2,213	$ 928	$	$ 3,141

(1) See Interest Rate Swaps in Note 5 for details.

There were no transfers between any levels of the fair value hierarchy during the periods presented in the tables below. The following tables present the changes in Level 3 assets and liabilities measured on a recurring basis for the three months and nine months ended June 30, 2011 and 2010 (dollars in thousands):

Three Months Ended June 30, 2011

Purchases,

	March 31, 2011	Net Gains Included in Earnings (1)	Sales, Issuances and Settlements, Net	June 30, 2011
Assets:				
Securities owned:				
Auction rate securities	$ 109,385	$ 714	$ (48,148)	$ 61,951
Money market and other mutual funds	1,026		41	1,067
Total Securities owned	$ 110,411	$ 714	$ (48,107)	$ 63,018

(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 June 30, 2011.

	Nine Months Ended June 30, 2011			
	September 30, 2010	Net Gains Included in Earnings (1)	Purchases, Sales, Issuances and Settlements, Net	June 30, 2011
Assets:				
Securities owned:				
Auction rate securities	$ 209,288	$ 3,685	$ (151,022)	$ 61,951
Money market and other mutual funds	5,404		(4,337)	1,067
Total Securities owned	$ 214,692	$ 3,685	$ (155,359)	$ 63,018

(1) Net gains on auction rate securities are recorded in other revenues on the Condensed Consolidated Statements of Income and $0.4 million of the net gains relate to assets held as of June 30, 2011.

	Three Months Ended June 30, 2010			
	March 31, 2010	Net Gains Included in Earnings	Purchases, Sales, Issuances and Settlements, Net	June 30, 2010
Assets:				
Short-term investments:				
Money market mutual funds	$	$ 757 (1)	$	$ 757
Securities owned:				
Auction rate securities	288,489	1,843 (2)	(47,045)	243,287
Money market and other mutual funds	3,873	8,452 (1)	(468)	11,857
Subtotal Securities owned	292,362	10,295	(47,513)	255,144
Total assets at fair value	$ 292,362	$ 11,052	$ (47,513)	$ 255,901

(1) Gains on money market mutual funds relate to shares of The Reserve Primary Fund that the Company continued to hold as of June 30, 2010. These gains were included in gains on money market funds and client guarantees on the Condensed Consolidated Statements of Income.

(2) Net gains on auction rate securities were recorded in other revenues on the Condensed Consolidated Statements of Income and did not relate to assets held as of June 30, 2010.

	Nine Months Ended June 30, 2010	
	Net Gains	Purchases, Sales,

	September 30, 2009	Included in Earnings	Issuances and Settlements, Net	June 30, 2010
Assets:				
Short-term investments:				
Money market mutual funds	$ 50,971	$ 1,264 (1)	$ (51,478)	$ 757
Securities owned:				
Auction rate securities	14,579	2,752 (2)	225,956	243,287
Money market and other mutual funds	5,049	8,452 (1)	(1,644)	11,857
Subtotal Securities owned	19,628	11,204	224,312	255,144&