

TD AMERITRADE HOLDING CORP

Form 10-K

November 19, 2010

Table of Contents

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

**Form 10-K**

- b ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2010**
- 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**

*(State or other jurisdiction of  
incorporation or organization)*

**82-0543156**

*(I.R.S. Employer  
Identification Number)*

**4211 South 102nd Street,  
Omaha, Nebraska 68127**

*(Address of principal executive offices and zip code)*

**(402) 331-7856**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock \$0.01 par value	The NASDAQ Stock Market LLC

**Securities registered pursuant to Section 12(g) of the Act:**

Title of class

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$4.2 billion computed by reference to the closing sale price of the stock on the Nasdaq Global Select Market on March 31, 2010, the last trading day of the registrant's most recently completed second fiscal quarter.

The number of shares of common stock outstanding as of November 11, 2010 was 576,395,781 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Definitive Proxy Statement relating to the registrant's 2011 Annual Meeting of Stockholders to be filed hereafter (incorporated into Part III hereof).

## TD AMERITRADE HOLDING CORPORATION

## INDEX

## Page No.

**Part I**

<u>Item 1.</u>	<u>Business</u>	3
<u>Item 1A.</u>	<u>Risk Factors</u>	10
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	18
<u>Item 2.</u>	<u>Properties</u>	18
<u>Item 3.</u>	<u>Legal Proceedings</u>	18

**Part II**

<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	20
<u>Item 6.</u>	<u>Selected Financial Data</u>	22
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
	<u>Glossary of Terms</u>	23
	<u>Financial Statement Overview</u>	27
	<u>Critical Accounting Policies and Estimates</u>	28
	<u>Results of Operations</u>	29
	<u>Liquidity and Capital Resources</u>	39
	<u>Off-Balance Sheet Arrangements</u>	43
	<u>Contractual Obligations</u>	43
	<u>Recently Adopted Accounting Pronouncements</u>	43
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	44
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	46
	<u>Report of Ernst &amp; Young LLP</u>	46
	<u>Consolidated Balance Sheets</u>	47
	<u>Consolidated Statements of Income</u>	48
	<u>Consolidated Statements of Stockholders' Equity</u>	49
	<u>Consolidated Statements of Cash Flows</u>	50
	<u>Notes to Consolidated Financial Statements</u>	51
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	89
<u>Item 9A.</u>	<u>Controls and Procedures</u>	89
<u>Item 9B.</u>	<u>Other Information</u>	91

**Part III**

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	91
<u>Item 11.</u>	<u>Executive Compensation</u>	91
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	91
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	92

<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	92
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**Part IV**

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	92
	Exhibit Index	92
	<u>Signatures</u>	96

EX-10.35

EX-10.44

EX-12

EX-21.1

EX-23.1

EX-31.1

EX-31.2

EX-32.1

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

## **Table of Contents**

Unless otherwise indicated, references to we, us, our, Company, or TD Ameritrade mean TD Ameritrade Holding Corporation and its subsidiaries, and references to fiscal mean the Company's fiscal year ended September 30 (for fiscal years 2007 through 2010) or the last Friday of September (for fiscal years prior to 2007). References to the parent company mean TD Ameritrade Holding Corporation.

## **PART I**

### **Item 1. Business**

#### **Form of Organization**

The Company was established in 1971 as a local investment banking firm and began operations as a retail discount securities brokerage firm in 1975. The parent company is a Delaware corporation.

#### **Operations**

We are a leading provider of securities brokerage services and technology-based financial services to retail investors, traders and independent registered investment advisors ( RIAs ). We provide our services predominantly through the Internet, a national branch network and relationships with RIAs. We believe that our services appeal to a broad market of independent, value-conscious retail investors, traders, financial planners and institutions. We use our efficient platform to offer brokerage services to retail investors and institutions under a simple, low-cost commission structure.

We have been an innovator in electronic brokerage services since entering the retail securities brokerage business in 1975. We believe that we were the first brokerage firm to offer the following products and services to retail clients: touch-tone trading; trading over the Internet; unlimited, streaming, free real-time quotes; extended trading hours; direct access to market destinations; and commitment on the speed of order execution. Since initiating online trading, we have substantially increased our number of brokerage accounts, average daily trading volume and total assets in client accounts. We have also built, and continue to invest in, a proprietary trade processing platform that is both cost-efficient and highly scalable, significantly lowering our operating costs per trade. In addition, we have made significant and effective investments in building the TD Ameritrade brand.

#### **Strategy**

We intend to capitalize on the growth and consolidation of the retail brokerage industry in the United States and leverage our low-cost infrastructure to grow our market share and profitability. Our long-term growth strategy is to increase our market share of total assets in client accounts by providing superior offerings to long-term investors, RIAs and active traders. We strive to enhance the client experience by providing sophisticated asset management products and services, enhanced technological capabilities that enable self-directed investors to trade and invest in new asset classes and a superior, proprietary, single-platform system to support RIAs. The key elements of our strategy are as follows:

*Focus on brokerage services.* We continue to focus on attracting active traders, long-term investors and RIAs to our brokerage services. This focused strategy is designed to enable us to maintain our low operating cost structure while offering our clients outstanding products and services. We primarily execute client securities transactions on an agency, rather than a principal, basis. We maintain only a small inventory of fixed income securities to meet client requirements.

*Provide a comprehensive long-term investor solution.* We continue to expand our suite of diversified investment products and services to best serve investors' needs. We help clients make investment decisions by

providing simple-to-use investment tools, guidance, education and objective third-party research.

*Maintain industry leadership and market share with active traders.* We help active traders make better-informed investment decisions by offering fast access to markets, insight into market trends and innovative tools such as strategy back-testing and comprehensive options research and trading capabilities.

## **Table of Contents**

*Continue to be a leader in the RIA industry.* We provide RIAs with comprehensive brokerage and custody services supported by our robust integrated technology platform, customized personal service and practice management solutions.

*Leverage our infrastructure to add incremental revenue.* Through our proprietary technology, we are able to provide a very robust online experience for long-term investors and active traders. Our low-cost, scalable systems provide speed, reliability and quality trade execution services for clients. The scalable capacity of our trading system allows us to add a significant number of transactions while incurring minimal additional fixed costs.

*Continue to be a low-cost provider of quality services.* We achieve low operating costs per trade by creating economies of scale, utilizing our proprietary transaction-processing systems, continuing to automate processes and locating much of our operations in low-cost geographical areas. This low fixed-cost infrastructure provides us with significant financial flexibility.

*Continue to differentiate our offerings through innovative technologies and service enhancements.* We have been an innovator in our industry over our 35-year history. We continually strive to provide our clients with the ability to customize their trading experience. We provide our clients greater choice by tailoring our features and functionality to meet their specific needs.

*Leverage the TD Ameritrade brand.* We believe that we have a superior brand identity and that our advertising has established TD Ameritrade as a leading brand in the retail brokerage market.

*Continue to aggressively pursue growth through acquisitions.* When evaluating potential acquisitions, we look for transactions that will give us operational leverage, technological leverage, increased market share or other strategic opportunities.

Most recently, on June 11, 2009, we acquired thinkorswim Group Inc. ( thinkorswim ). The acquisition enhanced our industry leadership position in client trades per day and provides our clients with access to thinkorswim s advanced trading technology, tools and services, as well as a leading investor education program. This acquisition is discussed in further detail in Item 8, Financial Statements and Supplementary Data Notes to Consolidated Financial Statements: Note 2 Business Combinations.

On January 24, 2006, we acquired the U.S. brokerage business of TD Waterhouse Group, Inc. ( TD Waterhouse ) from The Toronto-Dominion Bank ( TD ). The transaction combined highly complementary franchises to create a retail broker that we believe has the scale, breadth and financial strength to be a leading player in the increasingly competitive and consolidating investor services industry. The acquisition of TD Waterhouse provided us with a national network of over 100 branches, as well as relationships with one of the largest groups of independent RIAs. It also enabled us to provide our clients with Federal Deposit Insurance Corporation ( FDIC )-insured money market deposit accounts as either designated sweep vehicles or as non-sweep deposit accounts for their cash through an arrangement with TD Bank USA, N.A and TD Bank, N.A.

## **Client Offerings**

We deliver products and services aimed at providing a comprehensive, personalized experience for active traders, long-term investors and independent RIAs. Our client offerings are described below:



*TD Ameritrade*<sup>®</sup> is our core offering for self-directed retail investors. We offer sophisticated tools and services, including TD Ameritrade Command Center 2.0, SnapTicket,<sup>™</sup> Trade Triggers,<sup>™</sup> QuoteScope,<sup>™</sup> Market Motion Detector, Pattern Matcher,<sup>™</sup> StrategyDesk<sup>™</sup> and WealthRuler.<sup>™</sup> We offer futures and foreign exchange trading to TD Ameritrade brokerage clients through our thinkorswim from TD Ameritrade desktop application. We offer TD Ameritrade Apex<sup>™</sup> for clients who place an average of five trades per month over a three-month period or maintain a total account value of at least \$100,000. Apex clients receive free access to services that are normally available on a paid subscription basis, as well as access to exclusive services and content.

## **Table of Contents**

*TD Ameritrade Institutional* is a leading provider of comprehensive brokerage and custody services to more than 4,000 independent RIAs and their clients. Our advanced technology platform, coupled with personal support from our dedicated service teams, allows RIAs to run their practices more effectively and efficiently while optimizing time with clients. Additionally, TD Ameritrade Institutional provides a robust offering of products, programs and services. These services are all designed to help advisors build their businesses.

*thinkorswim by TD Ameritrade* provides a suite of trading platforms serving self-directed and institutional traders and money managers. thinkorswim platforms have easy-to-use interfaces, sophisticated analytical and research tools, and fast and efficient order execution for complex trading strategies. thinkorswim clients trade a broad range of products including stock and stock options, index options, futures and futures options, foreign exchange, mutual funds and fixed income.

*Investools* offers a comprehensive suite of investor education products and services for stock, option, foreign exchange, futures, mutual fund and fixed-income investors. Investools' educational products and services are primarily built around an investing method that is designed to teach both experienced and beginning investors how to approach the selection process for investment securities and actively manage their investment portfolios. Course offerings are generally combined with web-based tools, personalized instruction techniques and ongoing service and support and are offered in a variety of learning formats. Designed for the advanced student, continuing education programs offer students comprehensive access to a multitude of products and services priced either individually or on a bundled basis. Typically included in the continuing education bundles are additional curriculum, online courses, live workshops and coaching services.

*Amerivest<sup>tm</sup>* is an online advisory service that develops portfolios of exchange-traded funds (ETFs) to help long-term investors pursue their financial goals. Our subsidiary, Amerivest Investment Management, LLC, recommends an investment portfolio based on our proprietary automated five-step process centered on an investor's goals and risk tolerance.

*TD Ameritrade Corporate Services* provides self-directed brokerage services to employees and executives of corporations, either directly in partnership with the employer or through joint marketing relationships with third-party administrators, such as 401(k) providers and employee benefit consultants. Trust and custody services are also offered to a wide range of plan types through our TD Ameritrade Trust Company subsidiary.

## **Products and Services**

We strive to provide the best value of retail brokerage services to our clients. The products and services available to our clients include:

*Common and preferred stock.* Clients can purchase common and preferred stocks and American Depository Receipts traded on any United States exchange or quotation system.

*Exchange-Traded Funds.* ETFs are baskets of securities (stocks or bonds) that typically track recognized indices. They are similar to mutual funds, except that they trade on an exchange like stocks. On October 7, 2010, we introduced our new ETF Market Center, offering our clients over 100 commission-free ETFs, each of which has been carefully selected by independent experts at Morningstar Associates. Trades in these ETFs are commission-free, provided the funds are held for 30 days or longer. We also introduced a redesigned Web site that includes an ETF screener, along with independent research and commentary to assist investors in their decision-making.

*Options.* We offer a full range of option trades, including spreads, straddles and strangles. All option trades, including complex trades, are accessible on our trading platform.

*Futures.* We offer futures trades in a wide variety of commodities, stock indices and currencies.

*Foreign exchange.* We offer access to trading in over 100 different currency pairs.

**Table of Contents**

*Mutual funds.* Clients can compare and select from a portfolio of over 13,000 mutual funds from leading fund families, including a broad range of no-transaction-fee ( NTF ) funds. Clients can also easily exchange funds within the same mutual fund family.

*Fixed income.* We offer our clients access to a variety of Treasury, corporate, government agency and municipal bonds, as well as mortgage-backed securities and certificates of deposit.

*Margin lending.* We extend credit to clients that maintain margin accounts.

*Cash management services.* Through third-party banking relationships, we offer FDIC-insured deposit accounts and money market mutual funds to our clients as cash sweep alternatives. We also offer checking and ATM services through these relationships.

We earn commissions and transaction fees on client trades in common and preferred stock, ETFs, options, futures, foreign exchange, mutual funds and fixed income securities. Margin lending and the related securities lending business generate net interest revenue. Cash management services and fee-based mutual funds generate insured deposit account fees and investment product fee revenues. The following table presents the percentage of net revenues contributed by each class of similar services during the last three fiscal years:

Class of Service	Percentage of Net Revenues		
	Fiscal Year Ended September 30,		
	2010	2009	2008
Commissions and transaction fees	46.6%	52.0%	40.1%
Net interest revenue	16.5%	14.4%	21.7%
Insured deposit account fees	26.6%	23.6%	24.8%
Investment product fees	5.1%	7.7%	12.2%
Other revenues	5.2%	2.3%	1.2%
Net revenues	100.0%	100.0%	100.0%

We provide our clients with an array of channels to access our products and services. These include the Internet, our network of retail branches, mobile trading applications, interactive voice response and registered representatives via telephone.

**Client Service and Support**

We strive to provide the best client service in the industry as measured by: (1) speed of response time to telephone calls, (2) turnaround time responding to client inquiries and (3) client satisfaction with the account relationship.

We endeavor to optimize our highly-rated client service by:

Ensuring prompt response to client service calls through adequate staffing with properly trained and motivated personnel in our client service departments, a majority of whom hold the Series 7 license;

Tailoring client service to the particular expectations of the clients of each of our client segments; and

Expanding our use of technology to provide automated responses to the most typical inquiries generated in the course of clients' securities trading and related activities.

We provide access to client service and support through the following means:

*Web sites.* Our Web sites provide basic information on how to use our services, as well as an in-depth education center that includes a guide to online investing and an encyclopedia of finance. *Ted*, our Virtual Investment Consultant, is a Web tool that allows retail clients to interact with a virtual representative to ask questions regarding our products, tools and services.

*Branches.* We offer a nationwide network of over 100 retail branches, located primarily in large metropolitan areas.

## **Table of Contents**

*E-mail.* Clients are encouraged to use e-mail to contact our client service representatives. Our operating standards require a response within 24 hours of receipt of the e-mail; however, we strive to respond within four hours after receiving the original message.

*Telephone.* For clients who choose to call or whose inquiries necessitate calling one of our client service representatives, we provide a toll-free number that connects to advanced call handling systems. These systems provide automated answering and directing of calls to the proper department. Our systems also allow linkage between caller identification and the client database to give the client service representative immediate access to the client's account data when the call is received. Client service representatives are available 24 hours a day, seven days a week (excluding market holidays).

## **Technology and Information Systems**

Our technological capabilities and systems are central to our business and are critical to our goal of providing the best execution at the best value to our clients. Our operations require reliable, scalable systems that can handle complex financial transactions for our clients with speed and accuracy. We maintain sophisticated and proprietary technology that automates traditionally labor-intensive securities transactions. Our ability to effectively leverage and adopt new technology to improve our services is a key component of our success.

We continue to make investments in technology and information systems. We have spent a significant amount of resources to increase capacity and improve speed and reliability. To provide for system continuity during potential power outages, we have equipped our data centers with uninterruptible power supply units and back-up generators.

Our trading platforms currently have the capacity to process approximately 1,500,000 trades per day and approximately 33,000 client login connections per second. The greatest number of trades our clients have made in a single day is approximately 860,000.

## **Advertising and Marketing**

We intend to continue to grow and increase our market share by advertising online, on television, in print and direct mail and on our own Web sites. We invest heavily in advertising programs designed to bring greater brand recognition to our services. We intend to continue to aggressively advertise our services. From time to time, we may choose to increase our advertising to target specific groups of investors or to decrease advertising in response to market conditions.

Advertising for retail clients is generally conducted through Web sites, financial news networks and other television and cable networks. We also place print advertisements in a broad range of business publications and use direct mail advertising. Advertising for institutional clients is significantly less than for retail clients and is generally conducted through highly-targeted media. We also utilize third-party partners to market our investor education offerings at live events.

To monitor the success of our various marketing efforts, we use a data gathering and tracking system. This system enables us to determine the type of advertising that best appeals to our target market so that we can invest in these programs in the future. Additionally, through the use of our database tools, we are working to more efficiently determine the needs of our various client segments and tailor our services to their individual needs. We intend to utilize this system to strengthen our client relationships and support marketing campaigns to attract new clients. Our methods and uses of client information are disclosed in our privacy statement.

All of our brokerage-related communications with the public are regulated by the Financial Industry Regulatory Authority ( FINRA ).

**Clearing Operations**

Our subsidiary, TD Ameritrade Clearing, Inc. ( TDAC ), provides clearing and execution services to TD Ameritrade, Inc., our introducing broker-dealer subsidiary. Clearing services include the confirmation, receipt,

## **Table of Contents**

settlement, delivery and record-keeping functions involved in processing securities transactions. Our clearing broker-dealer subsidiary provides the following back office functions:

Maintaining client accounts;

Extending credit in a margin account to the client;

Engaging in securities lending and borrowing transactions;

Settling securities transactions with clearinghouses such as The Depository Trust & Clearing Corporation and The Options Clearing Corporation;

Settling commissions and transaction fees;

Preparing client trade confirmations and statements;

Performing designated cashiering functions, including the delivery and receipt of funds and securities to or from the client;

Possession, control and safeguarding of funds and securities in client accounts;

Processing cash sweep transactions to and from insured deposit accounts and money market mutual funds;

Transmitting tax accounting information to the client and to the applicable tax authority; and

Forwarding prospectuses, proxy materials and other shareholder information to clients.

## **Competition**

We believe that the principal determinants of success in the retail brokerage market are brand recognition, size of client base and client assets, ability to attract new clients and client assets, client trading activity, efficiency of operations, technology infrastructure and access to financial resources. We also believe that the principal factors considered by clients in choosing a brokerage firm are reputation, client service quality, price, convenient locations, product offerings, quality of trade execution, platform capabilities, innovation and overall value. Based on our experience, focus group research and the success we have enjoyed to date, we believe that we presently compete successfully in each of these categories.

The market for brokerage services, particularly electronic brokerage services, continues to evolve and is highly competitive. We have experienced significant competition during the past five years and expect this competitive environment to continue. We encounter direct competition from numerous other brokerage firms, many of which provide online brokerage services. These competitors include E\*TRADE Financial Corporation, The Charles Schwab Corporation, Fidelity Investments and Scottrade, Inc. We also encounter competition from established full-commission brokerage firms such as Merrill Lynch and Morgan Stanley Smith Barney, as well as financial institutions, mutual fund sponsors and other organizations, some of which provide online brokerage services.

## **Regulation**

The securities industry is subject to extensive regulation under federal and state law. Broker-dealers are required to register with the U.S. Securities and Exchange Commission ( SEC ) and to be members of FINRA. In addition, our



introducing broker-dealer subsidiary (TD Ameritrade, Inc.) is registered with the Commodity Futures Trading Commission ( CFTC ) and is a member of, and the corresponding services functions are regulated by, the National Futures Association ( NFA ). Our broker-dealer subsidiaries are subject to the requirements of the Securities Exchange Act of 1934 (the Exchange Act ) relating to broker-dealers, including, among other things, minimum net capital requirements. For our clearing broker-dealer subsidiary (TDAC), this minimum net capital level is determined by a calculation described in Rule 15c3-1 that is primarily based on aggregate debits, which primarily are a function of client margin balances. TDAC is required to maintain minimum net capital of 2% of aggregate debits. Since our aggregate debits may fluctuate significantly, our minimum net capital requirements may also fluctuate significantly from period to period. TD Ameritrade, Inc. is required to maintain minimum net capital of \$1.0 million.

## **Table of Contents**

Certain of our subsidiaries are also registered as investment advisors under the Investment Advisers Act of 1940. We are also subject to regulation in all 50 states and the District of Columbia, including registration requirements.

In its capacity as a securities clearing firm, TDAC is a member of The Depository Trust & Clearing Corporation and The Options Clearing Corporation, each of which is registered as a clearing agency with the SEC. As a member of these clearing agencies, TDAC is required to comply with the rules of such clearing agencies, including rules relating to possession and control of client funds and securities, margin lending and execution and settlement of transactions.

Margin lending activities are subject to limitations imposed by regulations of the Federal Reserve System and FINRA. In general, these regulations provide that, in the event of a significant decline in the value of securities collateralizing a margin account, we are required to obtain additional collateral from the borrower or liquidate security positions.

We are subject to a number of state and federal laws applicable to companies conducting business on the Internet that address client privacy, system security and safeguarding practices and the use of client information. For additional, important information relating to government regulation, please review the information set forth under the heading

Risk Factors Relating to the Regulatory Environment in Item 1A Risk Factors.

## **Risk Management**

Our business activities expose us to various risks, particularly operational risk, interest rate risk, credit risk and liquidity risk. Identifying and measuring our risks is critical to our ability to manage risk within acceptable tolerance levels in order to minimize the effect on our business, results of operations and financial condition.

Our management team is responsible for managing risk, and it is overseen by our board of directors, primarily through the board's Risk Committee. We use risk management processes and have policies and procedures for identifying, measuring and managing risks. Our risk management, compliance, internal audit, and legal departments assist management in identifying and managing risks. Our management team's Corporate Risk Committee is responsible for reviewing risk exposures and risk mitigation.

Risk is inherent in our business, and therefore, despite our efforts to manage risk, there can be no assurance that we will not sustain unexpected losses. For a discussion of the factors that could materially affect our business, financial condition or future results of operations, see Item 1A Risk Factors. For a discussion of the Company's market risk, see Item 7A Quantitative and Qualitative Disclosures About Market Risk.

## **Intellectual Property Rights**

Our success and ability to compete are significantly dependent on our intellectual property, which includes our proprietary technology, trade secrets and client base. We rely on copyright, trade secret, trademark, domain name, patent and contract laws to protect our intellectual property and have utilized the various methods available to us, including filing applications for patents and trademark registrations with the United States Patent and Trademark Office and entering into written licenses and other technology agreements with third parties. Our patented and patent pending technologies include stock indexing and investor education technologies, as well as innovative trading and analysis tools. Our trademarks include both our primary brand, TD Ameritrade, as well as brands for other products and services. A substantial portion of our intellectual property is protected by trade secrets. The source and object code for our proprietary software is also protected using applicable methods of intellectual property protection and general protections afforded to confidential information. In addition, it is our policy to enter into confidentiality and intellectual property ownership agreements with our employees and confidentiality and noncompetition agreements with our independent contractors and business partners and to control access to and distribution of our intellectual property.

**Employees**

As of September 30, 2010, we had 5,240 full-time equivalent employees. None of our employees is covered by a collective bargaining agreement. We believe that our relations with our employees are good.

**Table of Contents**

**Financial Information about Segments and Geographic Areas**

We primarily operate in the securities brokerage industry and have no other reportable segments. Our revenues from external clients for the fiscal years ended September 30, 2010, 2009 and 2008 were derived from our operations in the United States.

**Internet Address**

Additional information concerning our business can be found on our Web site at [www.amtd.com](http://www.amtd.com). We make available free of charge on our Web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition or future results of operations. Although the risks described below are those that management believes are the most significant, these are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently do not deem to be material also may materially affect our business, financial condition or future results of operations.

**Risk Factors Relating to Our Business Operations**

***Economic conditions and other securities industry risks could adversely affect our business.***

Substantially all of our revenues are derived from our securities brokerage business. Like other securities brokerage businesses, we are directly affected by economic and political conditions, broad trends in business and finance and changes in volume and price levels of securities transactions. Events in global financial markets in recent years, including failures and government bailouts of large financial services companies, resulted in substantial market volatility and increased client trading volume. However, any sustained downturn in general economic conditions or U.S. equity markets could result in reduced client trading volume and net revenues. For example, events such as the terrorist attacks in the United States on September 11, 2001 and the invasion of Iraq in 2003 resulted in periods of substantial market volatility and reductions in trading volume and net revenues. Severe market fluctuations or weak economic conditions could reduce our trading volume and net revenues and have a material adverse effect on our profitability.

***We have exposure to 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 FDIC-insured deposit account arrangement with TD Bank USA, N.A. and TD Bank N.A., which are subject to interest rate risk. During fiscal 2009, the Federal Open Market Committee reduced the federal funds rate from 2.00% to between 0% and 0.25%. This lower interest rate environment has compressed our net interest spread and reduced our spread-based revenues. It has also resulted in our voluntarily waiving fees on certain money market mutual funds in order to prevent our clients' yields on such funds from becoming negative. 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. If we are unable to effectively manage our interest rate risk, changes in interest rates could have a material adverse effect on our profitability.

***Our brokerage operations have exposure to liquidity risk.***

Maintaining adequate liquidity is crucial to our brokerage operations, including key functions such as transaction settlement and margin lending. Our liquidity needs to support interest-earning assets are primarily met by client cash balances or financing created from our securities lending activities. A reduction of funds available from these sources may require us to seek other potentially more expensive forms of financing, such as

**Table of Contents**

borrowings on our uncommitted lines of credit. Because our broker-dealer lines of credit are uncommitted, there can be no assurance that such financing would be available. Our liquidity could be constrained if we are unable to obtain financing on acceptable terms, or at all, due to a variety of unforeseen market disruptions. If we are unable to meet our funding needs on a timely basis, our business would be adversely affected.

***We are exposed to credit risk with clients and counterparties.***

We make margin loans to clients that are collateralized by client securities and we borrow and lend securities in connection with our broker-dealer business. A significant portion of our net revenues is derived from interest on margin loans. By permitting clients to purchase securities on margin, we are subject to risks inherent in extending credit, especially during periods of rapidly declining markets in which the value of the collateral held by us could fall below the amount of a client's indebtedness. In addition, in accordance with regulatory guidelines, we collateralize borrowings of securities by depositing cash or securities with lenders. Sharp changes in market values of substantial amounts of securities and the failure by parties to the borrowing transactions to honor their commitments could have a material adverse effect on our revenues and profitability.

***Our clearing operations expose us to liability for errors in clearing functions.***

Our broker-dealer subsidiary, TDAC, provides clearing and execution services to our introducing broker-dealer subsidiary, TD Ameritrade, Inc. Clearing and execution services include the confirmation, receipt, settlement and delivery functions involved in securities transactions. Clearing brokers also assume direct responsibility for the possession and control of client securities and other assets and the clearing of client securities transactions. However, clearing brokers also must rely on third-party clearing organizations, such as The Depository Trust & Clearing Corporation and The Options Clearing Corporation, in settling client securities transactions. Clearing securities firms, such as TDAC, are subject to substantially more regulatory control and examination than introducing brokers that rely on others to perform clearing functions. Errors in performing clearing functions, including clerical and other errors related to the handling of funds and securities held by us on behalf of clients, could lead to regulatory fines and civil penalties as well as losses and liability in related legal proceedings brought by clients and others.

***Systems failures, delays and capacity constraints could harm our business.***

We receive and process trade orders through a variety of electronic channels, including the Internet, mobile trading applications and our interactive voice response system. These methods of trading are heavily dependent on the integrity of the electronic systems supporting them. Our systems and operations are vulnerable to damage or interruption from human error, natural disasters, power loss, computer viruses, distributed denial of service ( DDOS ) attacks, spurious spam attacks, intentional acts of vandalism and similar events. It could take several hours or more to restore full functionality in the event of an unforeseen disaster. Extraordinary trading volumes could cause our computer systems to operate at an unacceptably slow speed or even fail. Extraordinary Internet traffic caused by DDOS or spam attacks could cause our Web site to be unavailable or slow to respond. While we have made significant investments to upgrade the reliability and scalability of our systems and added hardware to address extraordinary Internet traffic, there can be no assurance that our systems will be sufficient to handle such extraordinary circumstances. We may not be able to project accurately the rate, timing or cost of any increases in our business or to expand and upgrade our systems and infrastructure to accommodate any increases in a timely manner. Systems failures and delays could occur and could cause, among other things, unanticipated disruptions in service to our clients, slower system response time resulting in transactions not being processed as quickly as our clients desire, decreased levels of client service and client satisfaction and harm to our reputation. The occurrence of any of these events could have a material adverse effect on our results of operations and financial condition.

***Our networks and client information could be vulnerable to security risks.***

The secure transmission of confidential information over public networks is a critical element of our operations. Our networks could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We, along with the financial services industry in general, have experienced losses related to

**Table of Contents**

clients' login and password information being compromised, generally caused by clients' use of public computers or vulnerabilities of clients' private computers.

Persons who circumvent security measures could wrongfully use our confidential information or our clients' confidential information or cause interruptions or malfunctions in our operations. We could be required to expend significant additional resources to protect against the threat of security breaches or to alleviate problems caused by any breaches. We may not be able to implement security measures that will protect against all security risks. Because we provide a security guarantee under which we reimburse clients for losses resulting from unauthorized activity in their accounts, significant unauthorized activity could have a material adverse effect on our results of operations.

***Substantial competition could reduce our market share and harm our financial performance.***

The market for electronic brokerage services is continually evolving and is intensely competitive. The retail brokerage industry has experienced significant consolidation, which may continue in the future, and which may increase competitive pressures in the industry. Consolidation could enable other firms to offer a broader range of products and services than we do, or offer them at lower prices. There has been substantial price competition in the industry, including various free trade offers. We expect this competitive environment to continue in the future. We face direct competition from numerous retail brokerage firms, including E\*TRADE Financial Corporation, The Charles Schwab Corporation, Fidelity Investments and Scottrade, Inc. We also encounter competition from the broker-dealer affiliates of established full-commission brokerage firms, such as Merrill Lynch and Morgan Stanley Smith Barney, as well as from financial institutions, mutual fund sponsors and other organizations, some of which provide online brokerage services. Some of our competitors have greater financial, technical, marketing and other resources, offer a wider range of services and financial products, and have greater name recognition and a more extensive client base than we do. We believe that the general financial success of companies within the retail securities industry will continue to attract new competitors to the industry, such as banks, software development companies, insurance companies, providers of online financial information and others. These companies may provide a more comprehensive suite of services than we do. Increased competition, including pricing pressure, could have a material adverse effect on our results of operations and financial condition.

***We will need to introduce new products and services and enhance existing products and services to remain competitive.***

Our future success depends in part on our ability to develop and enhance our products and services. In addition, the adoption of new Internet, networking or telecommunications technologies or other technological changes could require us to incur substantial expenditures to enhance or adapt our services or infrastructure. There are significant technical and financial costs and risks in the development of new or enhanced products and services, including the risk that we might be unable to effectively use new technologies, adapt our services to emerging industry standards or develop, introduce and market enhanced or new products and services. An inability to develop new products and services, or enhance existing offerings, could have a material adverse effect on our profitability.

***We rely on third-party service providers to perform certain key functions.***

We rely on a number of third parties for various services. These include the services of other broker-dealers, market makers and exchanges to execute client orders. We contract with third parties for thinkorswim's clearing and related back-office services. Third-party content providers provide us with financial information, market news, charts, option and stock quotes, research reports and other fundamental data that we offer to clients.

We cannot assure that any third-party providers will be able to continue to provide these services in an efficient, cost-effective manner or that they will be able to adequately expand their services to meet our needs. An interruption



in or the cessation of service by any third-party service provider as a result of systems failures, capacity constraints, financial constraints or problems, unanticipated trading market closures or for any other reason, and our inability to make alternative arrangements in a smooth and timely manner, if at all, could have a material adverse effect on our business, results of operations and financial condition.

**Table of Contents**

**Risk Factors Relating to the Regulatory Environment**

***Recent legislation will result in changes to rules and regulations applicable to our business, which may negatively impact our business and financial results.***

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act requires many federal agencies to adopt new rules and regulations that will apply to the financial services industry and also calls for many studies regarding various industry practices. In particular, the Dodd-Frank Act gives the SEC discretion to adopt rules regarding standards of conduct for broker-dealers providing investment advice to retail customers. The various studies required by the legislation could result in additional rulemaking or legislative action, which could negatively impact our business and financial results. While we have not yet been required to make material changes to our business or operations as a result of the Dodd-Frank Act, it is not certain what the scope of future rulemaking or interpretive guidance from the SEC, FINRA, banking regulators and other regulatory agencies may be, and what impact this will have on our compliance costs, business, operations and profitability.

Our profitability could also be affected by rules and regulations that impact the business and financial communities generally, including changes to the laws governing banking, fiduciary duties, conflicts of interest, taxation, electronic commerce, client privacy and security of client data.

***Failure to comply with net capital requirements could adversely affect our business.***

The SEC, FINRA, CFTC, NFA and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers. Net capital is a measure, defined by the SEC, of a broker-dealer's readily available liquid assets, reduced by its total liabilities other than approved subordinated debt. All of our broker-dealer subsidiaries are required to comply with net capital requirements. If we fail to maintain the required net capital, the SEC could suspend or revoke our registration, or FINRA could expel us from membership, which could ultimately lead to our liquidation, or they could impose censures, fines or other sanctions. If the net capital rules are changed or expanded, or if there is an unusually large charge against net capital, then our operations that require capital could be limited. A large operating loss or charge against net capital could have a material adverse effect on our ability to maintain or expand our business.

***Regulatory uncertainties could harm our business.***

The securities industry is subject to extensive regulation and broker-dealers are subject to regulations covering all aspects of the securities business. The SEC, FINRA, CFTC, NFA, Department of Labor and other self-regulatory organizations and state and foreign regulators can, among other things, censure, fine, issue cease-and-desist orders to, suspend or expel a broker-dealer or any of its officers or employees. We could fail to establish and enforce procedures to comply with applicable regulations, which could have a material adverse effect on our business.

Our websites are accessible world-wide over the Internet, and we currently have account holders located outside the United States. These accounts comprise approximately 1.5% of our total accounts and are spread across many jurisdictions. Adverse action by foreign regulators with respect to regulatory compliance by us in foreign jurisdictions could adversely affect our revenues from clients in such countries or regions.

Various regulatory and enforcement agencies have been reviewing the following areas, among others, related to the brokerage industry:

sales practices and suitability of financial products and services;

auction rate securities;

money market mutual funds;

mutual fund trading;

anti-money laundering policies and procedures;

client cash sweep arrangements;

**Table of Contents**

regulatory reporting obligations;

risk management;

valuation of financial instruments;

best execution practices;

client privacy;

system security and safeguarding practices;

advertising claims; and

brokerage services provided to investment advisors.

These reviews could result in enforcement actions, significant new regulations or clarification of existing regulations, which could adversely affect our operations.

In addition, we use the Internet as a major distribution channel to provide services to our clients. A number of regulatory agencies have adopted regulations regarding client privacy, system security and safeguarding practices and the use of client information by service providers. Additional laws and regulations relating to the Internet and safeguarding practices could be adopted in the future, including laws related to identity theft and regulations regarding the pricing, taxation, content and quality of products and services delivered over the Internet. Complying with these laws and regulations may be expensive and time-consuming and could limit our ability to use the Internet as a distribution channel, which would have a material adverse effect on our profitability.

***We are subject to litigation and regulatory investigations and proceedings and may not always be successful in defending against such claims and proceedings.***

The financial services industry faces substantial litigation and regulatory risks. We are subject to arbitration claims and lawsuits in the ordinary course of our business, as well as class actions and other significant litigation. We also are the subject of inquiries, investigations and proceedings by regulatory and other governmental agencies. Actions brought against us may result in settlements, awards, injunctions, fines, penalties and other results adverse to us. Predicting the outcome of such matters is inherently difficult, particularly where claims are brought on behalf of various classes of claimants or by a large number of claimants, when claimants seek substantial or unspecified damages or when investigations or legal proceedings are at an early stage. A substantial judgment, settlement, fine or penalty could be material to our operating results or cash flows for a particular period, depending on our results for that period, or could cause us significant reputational harm, which could harm our business prospects. In market downturns, the volume of legal claims and amount of damages sought in litigation and regulatory proceedings against financial services companies have historically increased. The volume of claims and amount of damages claimed in litigation and the volume of regulatory matters have been increasing and remain high. We are also increasingly subject to litigation claims from third parties alleging infringement of their intellectual property rights. Such litigation can require the expenditure of significant resources, regardless of whether the claims have merit. If we were found to have infringed a third-party patent or other intellectual property right, then we could incur substantial liability and in some circumstances could be enjoined from using the relevant technology or providing related products and services.

**Risk Factors Relating to Strategic Acquisitions and the Integration of Acquired Operations**

***Acquisitions involve risks that could adversely affect our business.***

We intend to pursue strategic acquisitions of businesses and technologies. Acquisitions may entail numerous risks, including:

difficulties in the integration of acquired operations, services and products;

failure to achieve expected synergies;

diversion of management's attention from other business concerns;

**Table of Contents**

assumption of unknown material liabilities of acquired companies;

amortization of acquired intangible assets, which could reduce future reported earnings;

potential loss of clients or key employees of acquired companies; and

dilution to existing stockholders.

As part of our growth strategy, we regularly consider, and from time to time engage in, discussions and negotiations regarding strategic transactions, such as acquisitions, mergers and combinations within our industry. The purchase price for possible acquisitions could be paid in cash, through the issuance of common stock or other securities, borrowings or a combination of these methods.

We cannot be certain that we will be able to continue to identify, consummate and successfully integrate strategic transactions, and no assurance can be given with respect to the timing, likelihood or business effect of any possible transaction. For example, we could begin negotiations that we subsequently decide to suspend or terminate for a variety of reasons. However, opportunities may arise from time to time that we will evaluate. Any transactions that we consummate would involve risks and uncertainties to us. These risks could cause the failure of any anticipated benefits of an acquisition to be realized, which could have a material adverse effect on our revenues and profitability.

**Risk Factors Relating to Owning Our Stock**

*The market price of our common stock has experienced, and may continue to experience, substantial volatility.*

Our common stock, and the U.S. securities markets in general, can experience significant price fluctuations. The market prices of securities of financial services companies, in particular, have been especially volatile. The price of our common stock could decrease substantially. Among the factors that may affect our stock price are the following:

speculation in the investment community or the press about, or actual changes in, our competitive position, organizational structure, executive team, operations, financial condition, financial reporting and results, effectiveness of cost reduction initiatives, or strategic transactions;

the announcement of new products, services, acquisitions, or dispositions by us or our competitors; and

increases or decreases in revenue or earnings, changes in earnings estimates by the investment community, and variations between estimated financial results and actual financial results.

Changes in the stock market generally or as it concerns our industry, as well as geopolitical, economic, and business factors unrelated to us, may also affect our stock price.

Because the market price of our common stock can fluctuate significantly, we could become the object of securities class action litigation, which could result in substantial costs and a diversion of management's attention and resources and could have a material adverse effect on our business and the price of our common stock.

*We are restricted by the terms of our revolving credit facility and senior notes.*

Our \$300 million unsecured revolving credit facility contains various negative covenants and restrictions that may limit our ability to:

incur additional indebtedness in excess of \$100 million that includes any covenants that are more restrictive (taken as a whole) to us than those contained in the revolving credit facility, unless the revolving credit facility is amended to include the more restrictive covenants;

incur additional indebtedness at our subsidiaries;

create liens;

sell all or substantially all of our assets;

**Table of Contents**

change the nature of our business;

merge or consolidate with another entity; and

conduct transactions with affiliates.

Under our revolving credit facility, we are also required to maintain compliance with a maximum consolidated leverage ratio covenant (not to exceed 2.50:1.00) and a minimum consolidated interest coverage ratio covenant (not less than 5.00:1.00), and our broker-dealer subsidiaries are required to maintain compliance with a minimum regulatory net capital covenant. As a result of the covenants and restrictions contained in the revolving credit facility and our senior unsecured notes, we are limited in how we conduct our business. We cannot guarantee that we will be able to remain in compliance with these covenants or be able to obtain waivers for noncompliance in the future. A failure to comply with these covenants could have a material adverse effect on our financial condition by impairing our ability to secure and maintain financing.

***Our corporate debt level may limit our ability to obtain additional financing.***

As of September 30, 2010, we had approximately \$1.3 billion of long-term debt. Our ability to meet our cash requirements, including our debt service obligations, is dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are or may be beyond our control. We cannot provide assurance that our business will generate sufficient cash flows from operations to fund our cash requirements. If we are unable to meet our cash requirements from operations, we would be required to obtain alternative financing. The degree to which we may be leveraged as a result of the indebtedness we have incurred could materially and adversely affect our ability to obtain financing for working capital, acquisitions or other purposes, could make us more vulnerable to industry downturns and competitive pressures or could limit our flexibility in planning for, or reacting to, changes and opportunities in our industry, which may place us at a competitive disadvantage. There can be no assurance that we would be able to obtain alternative financing, that any such financing would be on acceptable terms or that we would be permitted to do so under the terms of existing financing arrangements. In the absence of such financing, our ability to respond to changing business and economic conditions, make future acquisitions, react to adverse operating results, meet our debt service obligations or fund required capital expenditures could be materially and adversely affected.

***Our business, financial position, and results of operations could be harmed by adverse rating actions by credit rating agencies.***

If our counterparty credit rating or the credit ratings of our outstanding indebtedness are downgraded, or if rating agencies indicate that a downgrade may occur, our business, financial position, and results of operations could be adversely affected and perceptions of our financial strength could be damaged. A downgrade would have the effect of increasing our incremental borrowing costs and could decrease the availability of funds for borrowing. In addition, a downgrade could adversely affect our relationships with our clients.

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

As of September 30, 2010, TD and J. Joe Ricketts, our founder, members of his family and trusts held for their benefit (which we collectively refer to as the Ricketts holders), owned approximately 46% and 15%, respectively, of our outstanding common stock. As a result, TD and the Ricketts holders have the ability to significantly influence the outcome of any matter submitted for the vote of our stockholders. TD is permitted under a stockholders agreement to exercise voting rights only with respect to 45% of our outstanding shares of common stock until termination of the



stockholders agreement (which will occur no later than January 24, 2016). There is no restriction on the ability of TD to vote its shares following the termination of the stockholders agreement. Under the stockholders agreement, if our stock repurchases cause TD's ownership percentage to increase, TD is only permitted to own up to 48% of our outstanding common stock and has until January 24, 2014 to reduce its ownership to 45%. The Ricketts holders are permitted under the stockholders agreement to own up to 29% of our outstanding common stock, with no restriction on the number of shares they may own following the termination of the stockholders agreement. As a result of their significant share ownership in TD Ameritrade, TD or the Ricketts holders may have the power, subject to applicable law, to significantly influence actions that might be favorable to TD or the Ricketts holders, but not necessarily favorable to our other stockholders.

## **Table of Contents**

The stockholders agreement also provides that TD may designate five of the twelve members of our board of directors and the Ricketts holders may designate three of the twelve members of our board of directors, subject to adjustment based on their respective ownership positions in TD Ameritrade. As of September 30, 2010, based on their ownership positions, TD and the Ricketts holders may designate five and two of the twelve members of our board of directors, respectively. Accordingly, TD and the Ricketts holders are able to significantly influence the outcome of all matters that come before our board.

The ownership position and governance rights of TD and the Ricketts holders could also discourage a third party from proposing a change of control or other strategic transaction concerning TD Ameritrade. As a result, our common stock could trade at prices that do not reflect a takeover premium to the same extent as do the stocks of similarly situated companies that do not have a stockholder with an ownership interest as large as TD's and the Ricketts holders combined ownership interest.

***We have extensive relationships and business transactions with TD and some of its affiliates, which if terminated or modified could have a material adverse affect on our business, financial condition and results of operations.***

We have extensive relationships and business transactions with TD and certain of its affiliates. The insured deposit account agreement and mutual fund agreements between us and affiliates of TD provide a significant portion of our revenue. During fiscal 2010, net revenues related to these agreements accounted for approximately 27% of our net revenues. The termination or modification of these agreements without replacing them with comparable terms, which may not be available, could have a material adverse effect on our business, financial condition and results of operations.

***Conflicts of interest may arise between TD Ameritrade and TD, which may be resolved in a manner that adversely affects our business, financial condition or results of operations.***

Conflicts of interest may arise between us and TD in areas relating to past, ongoing and future relationships, including corporate opportunities, potential acquisitions or financing transactions, sales or other dispositions by TD of its interests in TD Ameritrade and the exercise by TD of its influence over our management and affairs. Some of the directors on our board are persons who are also officers or directors of TD or its subsidiaries. Service as a director or officer of both TD Ameritrade and TD or its other subsidiaries could create conflicts of interest if such directors or officers are faced with decisions that could have materially different implications for us and for TD. Our amended and restated certificate of incorporation contains provisions relating to the avoidance of direct competition between us and TD. In addition, an independent committee of our board of directors reviews and approves transactions with TD and its affiliates. We have not established any other formal procedures to resolve potential or actual conflicts of interest between us and TD. There can be no assurance that any of the foregoing potential conflicts would be resolved in a manner that does not adversely affect our business, financial condition or results of operations. In addition, the provisions of the stockholders agreement related to non-competition are subject to numerous exceptions and qualifications and may not prevent us and TD from competing with each other to some degree in the future.

***The terms of the stockholders agreement, our charter documents and Delaware law could inhibit a takeover that stockholders may consider favorable.***

Provisions in the stockholders agreement among TD and the Ricketts holders, our certificate of incorporation and bylaws and Delaware law will make it difficult for any party to acquire control of us in a transaction not approved by the requisite number of directors. These provisions include:

the presence of a classified board of directors;

the ability of the board of directors to issue and determine the terms of preferred stock;  
advance notice requirements for inclusion of stockholder proposals at stockholder meetings; and  
the anti-takeover provisions of Delaware law.

## **Table of Contents**

These provisions could delay or prevent a change of control or change in management that might provide stockholders with a premium to the market price of their common stock.

***Our future ability to pay regular dividends to holders of our common stock is subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows.***

On October 26, 2010, we declared the first quarterly cash dividend on our common stock. Any future payment of dividends will depend on our ability to generate earnings and cash flows. However, sufficient cash may not be available to pay such dividends. Payment of future dividends, if any, will be at the discretion of our board of directors and will depend upon a number of factors that the board of directors deems relevant, including future earnings, the success of our business activities, capital requirements, the general financial condition and future prospects of our business and general business conditions. If we are unable to generate sufficient earnings and cash flows from our business, we may not be able to pay dividends on our common stock.

Our ability to pay cash dividends on our common stock is also dependent on the ability of our subsidiaries to pay dividends to the parent company. Some of our subsidiaries are subject to requirements of the SEC, FINRA, the CFTC, the 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.

### **Item 1B. *Unresolved Staff Comments***

None.

### **Item 2. *Properties***

Our corporate headquarters is located in Omaha, Nebraska and occupies approximately 74,000 square feet of leased space. The lease expires in April 2019. In the Omaha metropolitan area, we also lease approximately 397,000 square feet of building space for administrative and operational facilities. The leases on these other Omaha-area locations expire on various dates from 2011 through 2020. We are currently constructing new facilities in Omaha on land we purchased to create a corporate campus. The transition to the new campus is scheduled to take place in phases and to be completed in 2013.

We lease approximately 185,000 and 140,000 square feet of building space for additional operations centers in Jersey City, New Jersey and Ft. Worth, Texas, respectively. The Jersey City and Ft. Worth leases expire in 2015. We lease smaller administrative and operational facilities in California, Colorado, Illinois, Maryland, Missouri, Texas and Utah. We also lease over 100 branch offices located in large metropolitan areas in 34 states. We believe that our facilities are suitable and adequate to meet our needs.

### **Item 3. *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 November 15, 2010, TD Ameritrade, Inc. and plaintiffs Richard Holober and Brad Zigler entered into a proposed class settlement agreement and the plaintiffs filed a motion with the Court for preliminary approval. Under the proposed settlement, the Company will pay no less than \$2.5 million in settlement benefits to eligible members of the settlement class. Total compensation to be paid to all claimants will not exceed \$6.5 million, inclusive of any award of attorneys' fees and costs. In addition, the proposed settlement agreement provides that the

**Table of Contents**

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.

*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.

The SEC and other regulatory authorities are conducting investigations regarding TD Ameritrade, Inc.'s offering of The Reserve Yield Plus Fund to clients. TD Ameritrade, Inc. has received subpoenas and other requests for documents and information from the regulatory authorities. TD Ameritrade, Inc. is cooperating with the investigations and requests. 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 these matters, or the potential loss, if any, that may result from these matters.

*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.

**Table of Contents****PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*****Price Range of Common Stock**

Our common stock trades on the Nasdaq Global Select Market under the symbol `AMTD`. The following table shows the high and low sales prices for our common stock for the periods indicated, as reported by the Nasdaq Global Select Market. The prices reflect inter-dealer prices and do not include retail markups, markdowns or commissions.

	<b>Common Stock Price</b>			
	<b>For the Fiscal Year Ended September 30, 2010</b>		<b>2009</b>	
	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 21.30	\$ 17.91	\$ 18.43	\$ 9.34
Second Quarter	\$ 20.06	\$ 16.55	\$ 14.88	\$ 10.09
Third Quarter	\$ 20.58	\$ 15.18	\$ 19.34	\$ 13.23
Fourth Quarter	\$ 16.98	\$ 14.53	\$ 20.23	\$ 16.45

The closing sale price of our common stock as reported on the Nasdaq Global Select Market on November 8, 2010 was \$17.56 per share. As of that date there were 904 holders of record of our common stock based on information provided by our transfer agent. The number of stockholders of record does not reflect the number of individual or institutional stockholders that beneficially own our stock because most stock is held in the name of nominees. Based on information available to us, we believe there are approximately 106,000 beneficial holders of our common stock.

**Dividends**

We did not declare or pay cash dividends on our common stock during fiscal 2010 and 2009. On October 26, 2010, we declared a \$0.05 per share quarterly cash dividend, which is payable on December 15, 2010 to all holders of record of our common stock as of December 1, 2010. The payment of any future dividends will be at the discretion of our board of directors and will depend upon a number of factors that the board of directors deems relevant, including future earnings, the success of our business activities, capital requirements, the general financial condition and future prospects of our business and general business conditions.

Our ability to pay cash dividends on our common stock is also dependent on the ability of our subsidiaries to pay dividends to the parent company. Some of our subsidiaries are subject to requirements of the SEC, FINRA, the CFTC, the 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. See Item 7, Management's Discussion and Analysis of Results of Operations and Financial Condition—Liquidity and Capital Resources for further information.

**Securities Authorized for Issuance Under Equity Compensation Plans**



Information about securities authorized for issuance under the Company's equity compensation plans is contained in Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

**Table of Contents****Performance Graph**

*The following Company common stock performance information is not deemed to be soliciting material or to be filed with the SEC or subject to the SEC's proxy rules or to the liabilities of Section 18 of the Exchange Act and shall not be deemed to be incorporated by reference into any prior or subsequent filing by the Company under the Securities Act of 1933, as amended, or the Exchange Act.*

The following graph and table set forth information comparing the cumulative total return through the end of the Company's most recent fiscal year from a \$100 investment on September 30, 2005 in the Company's common stock, a broad-based stock index and the stocks comprising an industry peer group.

Index	Period Ended					
	9/30/05	9/29/06	9/30/07	9/30/08	9/30/09	9/30/10
TD Ameritrade Holding Corporation	100.00	114.98	111.14	101.68	119.74	98.51
S&P 500	100.00	110.79	129.01	100.66	93.70	103.22
Peer Group	100.00	127.80	134.52	140.67	104.31	77.60

The Peer Group is comprised of the following companies that have significant retail brokerage operations:

E\*TRADE Financial Corporation  
The Charles Schwab Corporation

**Table of Contents****Purchases of Equity Securities by the Issuer and Affiliated Purchasers****ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Program</b>
July 1, 2010 – July 31, 2010	1,143,238	\$ 15.17	1,000,100	
August 1, 2010 – August 31, 2010	292	\$ 15.78		12,000,000
September 1, 2010 – September 30, 2010	4,209	\$ 15.95		12,000,000
<b>Total – Three months ended September 30, 2010</b>	<b>1,147,739</b>	<b>\$ 15.17</b>	<b>1,000,100</b>	<b>12,000,000</b>

On August 11, 2009, our board of directors authorized the repurchase of up to 15 million shares of our common stock. We disclosed this authorization on November 13, 2009 in our annual report on Form 10-K. We initiated a stock repurchase program under this authorization beginning May 10, 2010. During July 2010, we completed the program by repurchasing the remaining one million shares at a weighted average price of \$15.15 per share. We repurchased a total of 15 million shares under the program at a weighted average purchase price of \$17.25 per share.

On August 5, 2010, our board of directors authorized the repurchase of up to an additional 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 are being repurchased as part of the 30 million share repurchase authorization. Under the terms of the agreement, we prepaid approximately \$169 million to the counterparty. The specific number of shares, if any, that we will purchase from the counterparty will vary 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. Settlement of the transaction will occur after the end of the measurement period, which will end no later than November 30, 2010 and is subject to early termination by the counterparty. Upon settlement of the transaction, any excess prepayment amount may be returned to us in cash or, at our option, used to purchase additional shares of our common stock.

During the quarter ended September 30, 2010, 147,639 shares were repurchased from employees for income tax withholding in connection with restricted stock unit and restricted stock award distributions.

**Item 6. Selected Financial Data****Fiscal Year Ended**

	Sept. 30, 2010	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 29, 2006*
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(In thousands, except per share amounts)

**Consolidated Statements of  
Income Data:**

Net revenues	\$ 2,560,691	\$ 2,407,926	\$ 2,537,356	\$ 2,176,946	\$ 1,803,531
Operating income	965,373	1,101,478	1,341,021	1,146,995	869,871
Net income	592,188	643,705	803,917	645,900	526,759
Earnings per share basic	\$ 1.01	\$ 1.11	\$ 1.35	\$ 1.08	\$ 0.97
Earnings per share diluted	\$ 1.00	\$ 1.10	\$ 1.33	\$ 1.06	\$ 0.95
Weighted average shares outstanding basic	585,128	578,972	593,746	598,503	544,307
Weighted average shares outstanding diluted	591,922	587,252	603,133	608,263	555,465
Dividends declared per share	\$	\$	\$	\$	\$ 6.00

**Table of Contents**

	Sept. 30, 2010	Sept. 30, 2009	As of Sept. 30, 2008 (In thousands)	Sept. 30, 2007	Sept. 29, 2006
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 741,492	\$ 791,211	\$ 674,135	\$ 413,787	\$ 363,650
Short-term investments	3,592	52,071	369,133	76,800	65,275
Total assets	14,726,918	18,371,810	15,951,522	18,092,327	16,558,469
Long-term obligations	1,323,068	1,443,465	1,444,544	1,481,948	1,710,712
Stockholders' equity	3,771,879	3,551,283	2,925,038	2,154,921	1,730,234

\* We declared and paid a special cash dividend of \$6.00 per share during fiscal 2006 in connection with our acquisition of TD Waterhouse Group, Inc. on January 24, 2006.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, expect, anticipate, plan, estimate, target, similar expressions. In particular, forward-looking statements contained in this discussion include our expectations regarding: the effect of client trading activity on our results of operations; the effect of changes in interest rates on our net interest spread; average commissions and transaction fees per trade; amounts of commissions and transaction fees, asset-based revenues and other revenues; amounts of total operating expenses and other expenses; 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 this Form 10-K. 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.

**Glossary of Terms**

In discussing and analyzing our business, we utilize several metrics and other terms that are defined in the following Glossary of Terms. *Italics* indicate other defined terms that appear elsewhere in the Glossary. The term "GAAP" refers to U.S. generally accepted accounting principles.

*Activity rate* =  $\frac{\text{total accounts}}{\text{Average client trades per day}}$  during the period divided by the average number of *total accounts* during the period.

*Activity rate funded accounts Average client trades per day* during the period divided by the average number of *funded accounts* during the period.

*Asset-based revenues* Revenues consisting 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*

**Table of Contents**

*balances* and average *securities borrowing* and *securities lending* balances. Average rates consist of the average interest rates and fees earned and paid on such balances.

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

*Average client trades per day* *Total trades* divided by the number of *trading days* in the period. This metric is also known as *daily average revenue trades* ( *DARTs* ).

*Average commissions and transaction fees per trade* *Total commissions and transaction fee revenues* as reported on the Company's Consolidated Statements of Income (excluding revenues from the active trader business acquired from thinkorswim and clearing revenues from TD Waterhouse UK) divided by *total trades* for the period. Commissions and transaction fee revenues primarily consist of trading commissions and revenue-sharing arrangements with market destinations (also referred to as *payment for order flow* ).

*Basis point* When referring to interest rates, one basis point represents one one-hundredth of one percent.

*Beneficiary accounts* *Brokerage accounts* managed by a custodian, guardian, conservator or trustee on behalf of one or more beneficiaries. Examples include accounts maintained under the Uniform Gift to Minors Act (UGMA) or Uniform Transfer to Minors Act (UTMA), guardianship, conservatorship and trust arrangements and pension or profit plan for small business accounts.

*Brokerage accounts* Accounts maintained by the Company on behalf of clients for securities brokerage activities. The primary types of brokerage accounts are *cash accounts*, *margin accounts*, *IRA accounts* and *beneficiary accounts*.

*Cash accounts* *Brokerage accounts* that do not have *margin account* approval.

*Clearing accounts* Accounts for which the Company served as the clearing broker-dealer on behalf of an unaffiliated introducing broker-dealer. The Company charged a fee to the introducing broker-dealer to process trades in clearing accounts.

*Client assets* The total value of cash and securities in *brokerage accounts*.

*Client cash and money market assets* The sum of all client cash balances, including *client credit balances* and client cash balances swept into insured deposit accounts or money market mutual funds.

*Client credit balances* Client cash held in *brokerage accounts*, excluding balances generated by client short sales on which no interest is paid. Interest paid on client credit balances is a reduction of *net interest revenue*. Client credit balances are included in *payable to clients* on our Consolidated Balance Sheets.

*Client margin balances* The total amount of cash loaned to clients in *margin accounts*. Such loans are secured by client assets. Interest earned on client margin balances is a component of *net interest revenue*. Client margin balances are included in *receivable from clients* on our Consolidated Balance Sheets.

*Conduit-based assets* Deposits paid on *securities borrowing* associated with our conduit-based securities borrowing/lending business. In our conduit business, we act as an intermediary by borrowing securities from one counterparty and lending the same securities to another counterparty. We generally earn a net interest spread equal to the excess of interest earned on *securities borrowing* deposits over the interest paid on *securities lending* deposits.

*Daily average revenue trades ( DARTs )* Total trades divided by the number of *trading days* in the period. This metric is also known as *average client trades per day*.

*EBITDA and EBITDA excluding investment gains/losses* EBITDA (earnings before interest, taxes, depreciation and amortization) and EBITDA excluding investment gains/losses are non-GAAP financial measures. We consider EBITDA and EBITDA excluding investment gains/losses to be important measures of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA is used as the denominator in the consolidated leverage ratio calculation for covenant purposes under our revolving credit facility. EBITDA eliminates the non-cash effect of tangible asset depreciation and amortization and intangible asset amortization. EBITDA excluding investment



**Table of Contents**

gains/losses also eliminates the effect of non-brokerage investment-related gains and losses that are not likely to be indicative of the ongoing operations of our business. EBITDA and EBITDA excluding investment gains/losses should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

*EPS excluding investment gains/losses* Earnings per share ( EPS ) excluding investment gains/losses is a non-GAAP financial measure. We define EPS excluding investment gains/losses as earnings (loss) per share, adjusted to remove the after-tax effect of non-brokerage investment-related gains and losses. We consider EPS excluding investment gains/losses an important measure of our financial performance. Gains/losses on non-brokerage investments and investment-related derivatives are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. EPS excluding investment gains/losses should be considered in addition to, rather than as a substitute for, GAAP earnings per share.

*EPS from ongoing operations* EPS from ongoing operations is a non-GAAP financial measure. We define EPS from ongoing operations as earnings (loss) per share, adjusted to remove any significant unusual gains or charges. We consider EPS from ongoing operations an important measure of the financial performance of our ongoing business. Unusual gains and charges are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. EPS from ongoing operations should be considered in addition to, rather than as a substitute for, GAAP earnings per share.

*Fee-based investment balances* Client assets invested in money market mutual funds, other mutual funds and Company programs such as AdvisorDirect® and Amerivest<sup>tm</sup> on which we earn fee revenues. Fee revenues earned on these balances are included in *investment product fees* on our Consolidated Statements of Income.

*Funded accounts* All open client accounts with a total *liquidation value* greater than zero, except *clearing accounts*.

*Insured deposit account fees* Revenues resulting from the Insured Deposit Account ( IDA ) agreement with TD Bank USA, N.A. ( TD Bank USA ), TD Bank, N.A. and The Toronto-Dominion Bank ( 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.

*Investment product fees* Revenues earned on *fee-based investment balances*. Investment product fees include fees earned on money market mutual funds, other mutual funds and through Company programs such as AdvisorDirect® and Amerivest<sup>tm</sup>.

*IRA accounts (Individual Retirement Arrangements)* A personal trust account for the exclusive benefit of a U.S. individual (or his or her beneficiaries) that provides tax advantages in accumulating funds to save for retirement or other qualified purposes. These accounts are subject to numerous restrictions on additions to and withdrawals from the account, as well as prohibitions against certain investments or transactions conducted within the account. The Company offers traditional, Roth, Savings Incentive Match Plan for Employees (SIMPLE) and Simplified Employee Pension (SEP) IRA accounts.

*Liquid assets* Liquid assets is a non-GAAP financial measure. We define liquid assets as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments, (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 5% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of

120% of the minimum dollar net capital requirement or in excess of 81/3% of aggregate indebtedness and (d) Tier 1 capital of our trust company in excess of the minimum dollar requirement. We include the excess capital of our broker-dealer and trust company subsidiaries in liquid assets, rather than simply including broker-dealer and trust 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

**Table of Contents**

trust company subsidiaries to the parent company. We consider liquid assets an important measure of our liquidity and of our ability to fund corporate investing and financing activities. Liquid assets should be considered as a supplemental measure of liquidity, rather than as a substitute for cash and cash equivalents.

*Liquidation value* The net value of a client's account holdings as of the close of a regular trading session. Liquidation value includes client cash and the value of long security positions, less margin balances and the cost to buy back short security positions.

*Margin accounts* *Brokerage accounts* in which clients may borrow from the Company to buy securities or for any other purpose, subject to regulatory and Company-imposed limitations.

*Net interest margin ( NIM )* A measure of the net yield on our average *spread-based assets*. 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*.

*Net interest revenue* Net interest revenue is interest revenues less brokerage interest expense. Interest revenues are generated by charges to clients on margin balances maintained in *margin accounts*, the investment of cash from operations and *segregated cash* in short-term marketable securities and interest earned on *securities borrowing*. Brokerage interest expense consists of amounts paid or payable to clients based on credit balances maintained in *brokerage accounts* and interest incurred on *securities lending*. Brokerage interest expense does not include interest on Company non-brokerage borrowings.

*Net new accounts or Net account growth* The number of new client accounts (funded and unfunded) opened in a specified period minus the number of client accounts closed in the same period.

*Net new assets* Consists of total client asset inflows, less total client asset outflows, excluding activity from business combinations. Client asset inflows include interest and dividend payments and exclude changes in client assets due to market fluctuations. Net new assets are measured based on the market value of the assets as of the date of the inflows and outflows.

*Net new asset growth rate (annualized)* Annualized *net new assets* as a percentage of *client assets* as of the beginning of the period.

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

*Return on client assets (ROCA)* Annualized pre-tax income divided by average *client assets* during the period.

*Securities borrowing* We borrow securities temporarily from other broker-dealers in connection with our broker-dealer business. We deposit cash as collateral for the securities borrowed, and generally earn interest revenue on the cash deposited with the counterparty.

*Securities lending* We loan securities temporarily to other broker-dealers in connection with our broker-dealer business. We receive cash as collateral for the securities loaned, and generally incur interest expense on the cash deposited with us.

*Segregated cash* Client cash and investments segregated in compliance with Rule 15c3-3 of the Securities Exchange Act of 1934 (the Customer Protection Rule) and other regulations. Interest earned on segregated cash is a component of *net interest revenue*.

*Spread-based assets* Client and brokerage-related asset balances, including *client margin balances*, *segregated cash*, *insured deposit account* balances, deposits paid on *securities borrowing* (excluding *conduit-based*

## **Table of Contents**

*assets*) and other cash and interest-earning investment balances. Spread-based assets is used in the calculation of our *net interest margin*.

*Total accounts* All open client accounts (funded and unfunded), except *clearing accounts*.

*Total trades* Revenue-generating client securities trades, which are executed by the Company's broker-dealer subsidiaries on an agency basis, excluding trades related to the active trader business acquired from thinkorswim and trades processed for TD Waterhouse UK. Total trades are a significant source of the Company's revenues. Such trades include, but are not limited to, trades in equities, options, futures, foreign exchange, mutual funds and debt instruments. Trades generate revenue from commissions, transaction fees and/or revenue-sharing arrangements with market destinations (also known as *payment for order flow*).

*Trading days* Days in which the U.S. equity markets are open for a full trading session. Reduced exchange trading sessions are treated as half trading days.

*Transaction-based revenues* Revenues generated from client trade execution, consisting primarily of commissions, transaction clearing fees and revenue sharing arrangements with market destinations (also known as *payment for order flow*).

## **Financial Statement Overview**

We provide securities brokerage and clearing services to our clients through our introducing and clearing broker-dealers. Substantially all of our net revenues are derived from our brokerage activities and clearing and execution services. Our primary focus is serving retail clients and independent registered investment advisors by providing services with straightforward, affordable pricing.

Our largest sources of revenues are asset-based revenues and transaction-based revenues. 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 receive payment for order flow, which results from arrangements we have with many execution agents to receive cash payments in exchange for routing trade orders to these firms for execution. Payment for order flow revenue is included in commissions and transaction fees on our Consolidated Statements of Income.

Our largest operating expense generally is employee compensation and benefits. Employee compensation and benefits expense includes salaries, bonuses, stock-based compensation, group insurance, contributions to benefit programs, recruitment and other related employee costs.

Clearing and execution costs include incremental third-party expenses that tend to fluctuate as a result of fluctuations in client accounts or trades. Examples of expenses included in this category are outsourced clearing services, statement and confirmation processing and postage costs and clearing expenses paid to the National Securities Clearing Corporation, option exchanges and other market centers. Communications expense includes telecommunications, other postage, news and quote costs. Occupancy and equipment costs include the costs of leasing and maintaining our office spaces and the lease expenses on computer and other equipment. Depreciation and amortization includes depreciation on property and equipment and amortization of leasehold improvements. Amortization of acquired intangible assets consists of amortization of amounts allocated to the value of intangible assets acquired in business combinations.

Professional services expense includes costs paid to outside firms for assistance with legal, accounting, technology, regulatory, marketing and general management issues. Advertising costs include production and placement of advertisements in various media, including online, television, print and direct mail, as well as client promotion and development costs. Advertising expenses may fluctuate significantly from period to period.

Losses (gains) on money market funds and client guarantees include: (a) corporate investment losses (gains) on money market fund holdings, (b) losses (gains) associated with our commitment to mitigate our clients' losses, up to

## **Table of Contents**

\$55 million, on their holdings in certain money market funds in the event the clients received less than \$1.00 per share upon the orderly liquidation of the funds and (c) losses (gains) associated with our guarantee related to auction rate securities settlement agreements. See Guarantees under Note 14 of the Notes to Consolidated Financial Statements for information regarding the client guarantees referred to under clauses (b) and (c) above. Other operating expenses include provision for bad debt losses, fraud and error losses, gains or losses on disposal of property, insurance expenses, travel expenses and other miscellaneous expenses.

Interest on borrowings consists of interest expense on our long-term debt, capital leases and other borrowings. Loss on debt refinancing consists of a charge to write off the unamortized balance of debt issuance costs associated with the credit facilities that were refinanced during fiscal 2010. Loss (gain) on sale of investments represents losses and gains realized on the sale of corporate (non broker-dealer) investments.

## **Critical Accounting Policies and Estimates**

The preparation of our consolidated financial statements requires us to make judgments and estimates that may have a significant impact upon our financial results. Note 1, under Item 8, Financial Statements and Supplementary Data Notes to Consolidated Financial Statements, of this Form 10-K 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***

We test goodwill for impairment on at least an annual basis, or whenever events and circumstances indicate that the carrying value may not be recoverable. In performing the impairment tests, we utilize quoted market prices of our common stock to estimate the fair value of the Company as a whole. The estimated fair value is then allocated to our reporting units, if applicable, based on operating revenues, and is compared with the carrying value of the reporting units. No impairment charges have resulted from our annual impairment tests. We review our acquired intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. We evaluate recoverability by comparing the undiscounted cash flows associated with the asset to the asset's carrying amount. We also evaluate the remaining useful lives of intangible assets each reporting period to determine if events or trends warrant a revision to the remaining period of amortization. We have had no events or trends that have warranted a revision to the originally estimated useful lives.

### ***Valuation of stock-based compensation***

Stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense over the requisite service period based on the number of awards for which the requisite service is expected to be rendered. We must make assumptions regarding the number of stock-based awards that will be forfeited. For performance-based awards, we must also make assumptions regarding the likelihood of achieving performance goals. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially affected.

### ***Estimates of effective income tax rates, deferred income taxes and related valuation allowances***

We estimate our income tax expense based on the various jurisdictions where we conduct business. This requires us to estimate our current income tax obligations and to assess temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities. Temporary differences result in deferred income tax assets and liabilities. We must evaluate the likelihood that deferred income tax assets will be realized. To the extent we

determine that realization is not more likely than not, we establish a valuation allowance. Establishing or increasing a valuation allowance results in a corresponding increase to income tax expense in our Consolidated Statements of Income. Conversely, to the extent circumstances indicate that a valuation allowance can be reduced or is no longer necessary, that portion of the valuation allowance is reversed, reducing income tax expense.

We must make significant judgments to calculate our provision for income taxes, our deferred income tax assets and liabilities and any valuation allowance against our deferred income tax assets. We must also exercise



**Table of Contents**

judgment in determining the need for, and amount of, any accruals for uncertain tax positions. Because the application of tax laws and regulations to many types of transactions is subject to varying interpretations, amounts reported in our consolidated financial statements could be significantly changed at a later date upon final determinations by taxing authorities.

**Valuation of guarantees**

We enter into guarantees in the ordinary course of business, primarily to meet the needs of our clients and to manage our asset-based revenues. We record a liability for the estimated fair value of the guarantee at its inception. If actual results differ significantly from these estimates, our results of operations could be materially affected. For further details regarding our guarantees, see the following sections under Item 8, Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements: Guarantees under Note 14 Commitments and Contingencies and Insured Deposit Account Agreement under Note 18 Related Party Transactions.

**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 are key metrics we use in evaluating our financial performance. EBITDA is a non-GAAP financial measure.

We consider EBITDA to be 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):

<b>Fiscal Year Ended September 30,</b>					
<b>2010</b>		<b>2009</b>		<b>2008</b>	
	<b>% of</b>		<b>% of</b>		<b>% of</b>
	<b>Net</b>		<b>Net</b>		<b>Net</b>

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	\$	Revenues	\$	Revenues	\$	Revenues
EBITDA	\$ 1,114,438	43.5%	\$ 1,219,236	50.6%	\$ 1,438,123	56.7%
Less:						
Depreciation and amortization	(57,032)	(2.2)%	(45,891)	(1.9)%	(36,899)	(1.5)%
Amortization of acquired intangible assets	(100,463)	(3.9)%	(73,870)	(3.1)%	(59,275)	(2.3)%
Interest on borrowings	(44,858)	(1.8)%	(40,070)	(1.7)%	(78,447)	(3.1)%
Provision for income taxes	(319,897)	(12.5)%	(415,700)	(17.3)%	(459,585)	(18.1)%
Net income	\$ 592,188	23.1%	\$ 643,705	26.7%	\$ 803,917	31.7%

**Table of Contents**

Our EBITDA decreased for fiscal 2010 compared to fiscal 2009, primarily due to (1) lower net interest margin earned on spread-based balances and investment product fees waived on money market mutual funds due to the near-zero short-term interest rate environment, (2) an 11% decrease in average client trades per day on a pro forma combined basis including results of thinkorswim (thinkorswim was acquired during the third quarter of fiscal 2009), and (3) higher incentive-based compensation related to our success in attracting net new client assets. These factors were partially offset by the favorable revenue impact of a 64% increase in average spread-based balances for fiscal 2010 compared to fiscal 2009. Detailed analysis of net revenues and expenses is presented later in this discussion.

**Operating Metrics**

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For fiscal 2010, asset-based revenues and transaction-based revenues accounted for 48% and 47% of our net revenues, respectively. Asset-based revenues consist of (1) net interest revenue, (2) insured deposit account fees and (3) investment product fees. The primary factors driving our asset-based revenues are average balances and average rates. Average balances consist primarily of average client margin balances, average segregated cash balances, average client credit balances, average client insured deposit account balances, average fee-based investment balances and average securities borrowing and lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances. The primary factors driving our transaction-based revenues are total client trades and average commissions and transaction fees per trade. We also consider client account and client asset metrics, although we believe they are generally of less significance to our results of operations for any particular period than our metrics for asset-based and transaction-based revenues.

**Asset-Based Revenue Metrics**

We calculate the return on our interest-earning assets (excluding conduit-based assets) and our insured deposit account balances using a measure we refer to as net interest margin. Net interest margin is calculated for a given period by dividing the annualized sum of net interest revenue (excluding net interest revenue from conduit-based assets) and insured deposit account fees by average spread-based assets. Spread-based assets consist of client and brokerage-related asset balances, including client margin balances, segregated cash, insured deposit account balances, deposits paid on securities borrowing (excluding conduit-based assets) and other cash and interest-earning investment balances. The following table sets forth net interest margin and average spread-based assets (dollars in millions):

	<b>2010</b>	<b>Fiscal Year 2009</b>	<b>2008</b>	<b>10 vs. 09 Increase/ (Decrease)</b>	<b>09 vs. 08 Increase/ (Decrease)</b>
Average interest-earning assets (excluding conduit business)	\$ 13,272	\$ 9,917	\$ 9,835	\$ 3,355	\$ 82
Average insured deposit account balances	39,187	22,003	15,640	17,184	6,363
Average spread-based balance	\$ 52,459	\$ 31,920	\$ 25,475	\$ 20,539	\$ 6,445
Net interest revenue (excluding conduit business)	\$ 420.9	\$ 342.7	\$ 538.1	\$ 78.2	\$ (195.4)
Insured deposit account fee revenue	682.2	568.1	628.7	114.1	(60.6)
Spread-based revenue	\$ 1,103.1	\$ 910.8	\$ 1,166.8	\$ 192.3	\$ (256.0)

Average yield interest-earning assets (excluding conduit business)	3.13%	3.41%	5.38%	(0.28)%	(1.97)%
Average yield insured deposit account fees	1.72%	2.55%	3.95%	(0.83)%	(1.40)%
Net interest margin (NIM)	2.07%	2.81%	4.50%	(0.74)%	(1.69)%

**Table of Contents**

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)			10 vs. 09	09 vs. 08
	2010	Fiscal Year 2009	2008	Increase/ (Decrease)	Increase/ (Decrease)
Segregated cash	\$ 6.3	\$ 6.6	\$ 0.3	\$ (0.3)	\$ 6.3
Client margin balances	333.1	234.2	527.1	98.9	(292.9)
Securities borrowing (excluding conduit business)	84.9	105.4	56.0	(20.5)	49.4
Other cash and interest-earning investments, net	0.9	3.5	35.0	(2.6)	(31.5)
Client credit balances	(2.9)	(4.1)	(24.9)	1.2	20.8
Securities lending (excluding conduit business)	(1.4)	(2.9)	(55.4)	1.5	52.5
Net interest revenue (excluding conduit business)	420.9	342.7	538.1	78.2	(195.4)
Securities borrowing conduit business	1.7	10.9	173.3	(9.2)	(162.4)
Securities lending conduit business	(0.9)	(6.7)	(161.8)	5.8	155.1
Net interest revenue	\$ 421.7	\$ 346.9	\$ 549.6	\$ 74.8	\$ (202.7)

	Average Balance			10 vs. 09	09 vs. 08
	2010	Fiscal Year 2009	2008	% Change	% Change
Segregated cash	\$ 4,675	\$ 3,916	\$ 12	19%	N/A
Client margin balances	6,991	4,491	8,138	56%	(45)%
Securities borrowing (excluding conduit business)	536	450	416	19%	8%
Other cash and interest-earning investments	1,070	1,060	1,269	1%	(16)%
Interest-earning assets (excluding conduit business)	13,272	9,917	9,835	34%	1%
Securities borrowing conduit business	481	1,242	5,446	(61)%	(77)%
Interest-earning assets	\$ 13,753	\$ 11,159	\$ 15,281	23%	(27)%
Client credit balances	\$ 8,548	\$ 6,219	\$ 4,261	37%	46%
Securities lending (excluding conduit business)	1,643	1,231	3,200	33%	(62)%
Interest-bearing liabilities (excluding conduit business)	10,191	7,450	7,461	37%	(0)%
Securities lending conduit business	481	1,242	5,446	(61)%	(77)%



**Table of Contents**

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

	Fee Revenue Fiscal Year			10 vs. 09 Increase/ (Decrease)	09 vs. 08 Increase/ (Decrease)
	2010	2009	2008		
Money market mutual fund	\$ 9.9	\$ 108.5	\$ 212.2	\$ (98.6)	\$ (103.7)
Other investment product fees	119.4	75.8	97.2	43.6	(21.4)
Total investment product fees	\$ 129.3	\$ 184.3	\$ 309.4	\$ (55.0)	\$ (125.1)

	Average Balance Fiscal Year			10 vs. 09 %	09 vs. 08 %
	2010	2009	2008	Change	Change
Money market mutual fund	\$ 9,846	\$ 23,312	\$ 26,976	(58)%	(14)%
Other fee-based investment balances	51,734	36,113	43,806	43%	(18)%
Total fee-based investment balances	\$ 61,580	\$ 59,425	\$ 70,782	4%	(16)%

	Average Yield Fiscal Year			10 vs. 09 Increase/ (Decrease)	09 vs. 08 Increase/ (Decrease)
	2010	2009	2008		
Money market mutual fund	0.10%	0.46%	0.77%	(0.36)%	(0.31)%
Other investment product fees	0.23%	0.21%	0.22%	0.02%	(0.01)%
Total investment product fees	0.21%	0.31%	0.43%	(0.10)%	(0.12)%

**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:

	Fiscal Year			10 vs. 09 %	09 vs. 08 %
	2010	2009	2008	Change	Change
Total trades (in millions)	93.33	93.27	75.72	0%	23%
Average commissions and transaction fees per	\$ 12.79	\$ 13.35	\$ 13.44	(4)%	(1)%

trade(1)					
Average client trades per day	371,835	371,579	301,061	0%	23%
Average client trades per account (annualized)	12.0	12.9	11.4	(7)%	13%
Activity rate total accounts	4.8%	5.1%	4.5%	(6)%	13%
Activity rate funded accounts	6.9%	7.3%	6.3%	(5)%	16%
Trading days	251.0	251.0	251.5	0%	(0)%

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



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

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

	<b>Fiscal Year</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total accounts (beginning of year)	7,563,000	6,895,000	6,380,000
New accounts opened	668,000	737,000	648,000
Accounts purchased		197,000	102,000
Accounts closed	(285,000)	(266,000)	(235,000)
Total accounts (end of year)	7,946,000	7,563,000	6,895,000
Percentage change during year	5%	10%	8%
Funded accounts (beginning of year)	5,279,000	4,918,000	4,597,000
Funded accounts (end of year)	5,455,000	5,279,000	4,918,000
Percentage change during year	3%	7%	7%
Client assets (beginning of year, in billions)	\$ 302.0	\$ 278.0	\$ 302.7
Client assets (end of year, in billions)	\$ 354.8	\$ 302.0	\$ 278.0
Percentage change during year	17%	9%	(8)%
Net new assets (in billions)	\$ 33.9	\$ 26.6	\$ 22.8
Net new assets annualized growth rate	11%	10%	8%

In connection with our purchase of thinkorswim on June 11, 2009, we acquired approximately 197,000 total accounts, approximately 113,000 funded accounts and approximately \$4 billion in client assets. In connection with our purchase of Fiserv Trust Company on February 4, 2008, we acquired approximately 102,000 total accounts, approximately 81,000 funded accounts and approximately \$25 billion in client assets.

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

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

	Fiscal Year			10 vs.	09 vs.
	2010	2009	2008	09 %	08 %
				Change	Change
Revenues:					
Transaction-based revenues:					
Commissions and transaction fees	\$ 1,193.8	\$ 1,253.2	\$ 1,017.5	(5)%	23%
Asset-based revenues:					
Interest revenue	427.7	362.1	799.2	18%	(55)%
Brokerage interest expense	(6.1)	(15.2)	(249.6)	(60)%	(94)%
Net interest revenue	421.7	346.9	549.6	22%	(37)%
Insured deposit account fees	682.2	568.1	628.7	20%	(10)%
Investment product fees	129.3	184.3	309.4	(30)%	(40)%
Total asset-based revenues	1,233.2	1,099.3	1,487.7	12%	(26)%
Other revenues	133.8	55.4	32.2	141%	72%
Net revenues	2,560.7	2,407.9	2,537.4	6%	(5)%
Operating expenses:					
Employee compensation and benefits	622.4	511.2	503.3	22%	2%
Fair value adjustments of compensation-related derivative instruments			0.8	N/A	(100)%
Clearing and execution costs	90.4	70.9	44.6	27%	59%
Communications	106.9	83.1	69.6	29%	19%
Occupancy and equipment costs	142.9	124.3	101.8	15%	22%
Depreciation and amortization	57.0	45.9	36.9	24%	24%
Amortization of acquired intangible assets	100.5	73.9	59.3	36%	25%
Professional services	132.2	127.6	108.3	4%	18%
Advertising	250.0	197.1	173.3	27%	14%
Losses (gains) on money market funds and client guarantees	(12.7)	13.8	35.6	N/A	(61)%
Other	105.7	58.7	62.9	80%	(7)%
Total operating expenses	1,595.3	1,306.4	1,196.3	22%	9%
Operating income	965.4	1,101.5	1,341.0	(12)%	(18)%
Other expense (income):					
Interest on borrowings	44.9	40.1	78.4	12%	(49)%

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Loss on debt refinancing	8.4			N/A	N/A
Loss (gain) on sale of investments	0.0	2.0	(0.9)	(98)%	N/A
Total other expense (income)	53.3	42.1	77.5	27%	(46)%
Pre-tax income	912.1	1,059.4	1,263.5	(14)%	(16)%
Provision for income taxes	319.9	415.7	459.6	(23)%	(10)%
Net income	\$ 592.2	\$ 643.7	\$ 803.9	(8)%	(20)%
Other information:					
Effective income tax rate	35.1%	39.2%	36.4%		
Average debt outstanding	\$ 1,303.0	\$ 1,444.3	\$ 1,469.2	(10)%	(2)%
Average interest rate incurred on borrowings	3.09%	2.44%	4.99%		

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

**Table of Contents**

***Fiscal Year Ended September 30, 2010 Compared to Fiscal Year Ended September 30, 2009***

*Net Revenues*

Commissions and transaction fees decreased 5% to \$1.19 billion, primarily due to lower average commissions and transaction fees per trade. Average commissions and transaction fees per trade decreased to \$12.79 per trade for fiscal 2010 from \$13.35 for fiscal 2009, primarily due to lower payment for order flow revenue per trade and the full-year effect of thinkorswim trading activity, which earns somewhat lower average commissions and transaction fees per trade, during fiscal 2010. These decreases were partially offset by a higher percentage of option trades and a decrease in promotional trades during fiscal 2010. Average client trades per day were virtually unchanged at 371,835 for fiscal 2010 compared to 371,579 for fiscal 2009. However, on a pro forma basis combined with thinkorswim, average client trades per day decreased 11% from 418,639 for fiscal 2009. Average client trades per account (annualized) were 12.0 for fiscal 2010 compared to 12.9 for fiscal 2009. We expect average commissions and transaction fees to range between \$12.00 and \$12.50 per trade during fiscal 2011, depending on the mix of client trading activity, level of payment for order flow revenue and other factors. We expect revenues from commissions and transaction fees to range from \$1.02 billion to \$1.29 billion for fiscal 2011, depending on the volume of client trading activity, average commissions and transaction fees per trade and other factors.

Asset-based revenues, which consists of net interest revenue, insured deposit account fees and investment product fees, increased 12% to \$1.23 billion, as described below. We expect asset-based revenues to increase to between \$1.32 billion and \$1.47 billion for fiscal 2011, depending largely on the interest rate environment and the rate of growth in spread-based balances. This estimated range assumes no change in the federal funds rate or LIBOR yield curve for fiscal 2011. We expect increased average spread-based asset balances for fiscal 2011 to be partially offset by a slight decrease in the expected average yield earned on those assets due to the expected continued low short-term interest rate environment.

Net interest revenue increased 22% to \$421.7 million, due primarily to a 56% increase in average client margin balances, partially offset by a decrease of 44 basis points in the average yield earned on client margin balances and a \$22.4 million decrease in net interest revenue from our securities borrowing/lending program for fiscal 2010 compared to fiscal 2009.

Insured deposit account fees increased 20% to \$682.2 million, due primarily to a 78% increase in average client insured deposit account balances during fiscal 2010 compared to fiscal 2009 and the effect of a \$13.3 million (6 basis points) FDIC special regulatory assessment during fiscal 2009. The increased insured deposit account balances are primarily due to our strategy of migrating client cash held in client credit balances or swept to money market mutual funds to the insured deposit account offering beginning in April 2009. In January 2010, we moved an additional \$4.2 billion of client cash held in client credit balances into the insured deposit account offering. We expect our migration strategy to position the Company to earn higher net revenues, as we generally earn a higher yield on insured deposit account balances than on money market mutual fund or client credit balances. The effect of the increased insured deposit account balances was significantly offset by a decrease of 89 basis points (excluding the effect of the FDIC special regulatory assessment mentioned above) in the average yield earned on the insured deposit account assets during fiscal 2010.

Investment product fees decreased 30% to \$129.3 million, primarily due to a 58% decrease in average money market mutual fund balances and a decrease of 36 basis points in the average yield earned on client money market mutual fund balances, partially offset by a 43% increase in average other fee-based investment balances in fiscal 2010 compared to fiscal 2009. The decrease in average money market mutual fund balances resulted primarily from our client cash migration strategy discussed above. The decrease in the average yield earned in fiscal 2010 was primarily

due to our decision to voluntarily begin waiving fees on certain money market mutual funds during the first quarter of fiscal 2009 in order to prevent our clients' yields on such funds from becoming negative. The unfavorable impact of the fee waivers on the average yield earned gradually increased during fiscal 2009.

Other revenues increased to \$133.8 million, primarily due to an increase in education revenues as a result of the thinkorswim acquisition. We expect other revenues to decrease to between \$111.0 million and \$121.0 million for fiscal 2011.

**Table of Contents**

*Operating Expenses*

Total operating expenses increased 22% to \$1.60 billion during fiscal 2010, as described below. We expect total operating expenses to range from \$1.56 billion to \$1.71 billion for fiscal 2011.

Employee compensation and benefits expense increased 22% to \$622.4 million, primarily due to an increase in average headcount resulting from the thinkorswim acquisition and higher incentive-based compensation related to actual Company and individual performance, including our success in attracting net new client assets, in fiscal 2010 compared to fiscal 2009. The average number of full-time equivalent employees was 5,281 for fiscal 2010 compared to 4,788 for fiscal 2009.

Clearing and execution costs increased 27% to \$90.4 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition, partially offset by lower client statement processing costs in fiscal 2010 compared to fiscal 2009.

Communications expense increased 29% to \$106.9 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition, increased telecommunications costs resulting from our migration to a new secondary data center during fiscal 2009 and increased costs for quotes and market information.

Occupancy and equipment costs increased 15% to \$142.9 million due primarily to upgrades to our technology infrastructure and facilities and due to the addition of thinkorswim occupancy and equipment costs.

Depreciation and amortization increased 24% to \$57.0 million, due primarily to depreciation on recent technology infrastructure upgrades and leasehold improvements and due to depreciation of assets recorded in the thinkorswim acquisition.

Amortization of acquired intangible assets increased 36% to \$100.5 million, due to amortization of intangible assets recorded in the thinkorswim acquisition.

Professional services increased 4% to \$132.2 million, primarily due to higher usage of consulting and contract services during fiscal 2010 in connection with new product development, technology infrastructure upgrades and the integration of thinkorswim. These increases were significantly offset by the effect of a \$13 million acquisition earn-out payment and a \$5 million write-off of software development costs during fiscal 2009.

Advertising expense increased 27% to \$250.0 million, primarily due to increased spending for the TD Ameritrade brand in response to competitive market share opportunities and the full year effect of marketing support for the thinkorswim business. We generally adjust our level of advertising spending in relation to stock market activity and other market conditions in an effort to maximize the number of new accounts while minimizing the advertising cost per new account.

Gains on money market funds and client guarantees during fiscal 2010 consists of \$9.4 million of recoveries on our Reserve Primary Fund holdings, \$1.9 million of favorable fair market value adjustments to our Reserve International Liquidity Fund holdings and \$1.4 million of gains related to the final fulfillment of our auction rate securities and Primary Fund client guarantees. Losses on money market funds and client guarantees during fiscal 2009 consists of losses associated with our client commitments related to auction rate securities settlement agreements. Our client guarantees are discussed further under Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements: Guarantees under Note 14 Commitments and Contingencies.

Other operating expenses increased 80% to \$105.7 million, primarily due to increased litigation, arbitration and regulatory expenses and additional expenses related to the thinkorswim business, including education travel and venue costs, in fiscal 2010 compared to fiscal 2009.

*Other Expenses and Income Taxes*

Other expenses increased by 27% to \$53.3 million during fiscal 2010, primarily due to the debt refinancing charge described below. We expect other expenses to range from \$41.9 million to \$46.8 million for fiscal 2011.

**Table of Contents**

Interest on borrowings increased 12% to \$44.9 million, due primarily to higher average interest rates incurred on our debt, partially offset by a 10% decrease in average debt outstanding during fiscal 2010 compared to fiscal 2009. The average interest rate incurred on our debt was 3.09% for fiscal 2010, compared to 2.44% for fiscal 2009, primarily due to the refinancing of our long-term debt on November 25, 2009.

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

Our effective income tax rate decreased to 35.1% for fiscal 2010, compared to 39.2% for fiscal 2009. The effective tax rate for fiscal 2010 was unusually low due to \$32.0 million of favorable resolutions of certain federal and state income tax matters during fiscal 2010. These items favorably impacted our earnings for fiscal 2010 by approximately \$0.05 per share. The effective tax rate for fiscal 2009 was slightly higher than normal due to unfavorable deferred income tax adjustments of approximately \$8.9 million resulting from state income tax law changes and capital loss limitations on certain money market mutual fund holdings. These items unfavorably impacted our earnings for fiscal 2009 by approximately \$0.02 per share. We expect our effective income tax rate to range from 38% to 39% for 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.

***Fiscal Year Ended September 30, 2009 Compared to Fiscal Year Ended September 30, 2008***

***Net Revenues***

Commissions and transaction fees increased 23% to \$1.25 billion, primarily due to higher average client trades per day, partially offset by slightly lower commissions and transaction fees per trade. Average client trades per day increased 23% to 371,579 for fiscal 2009 from 301,061 for fiscal 2008. Average client trades per account (annualized) increased to 12.9 for fiscal 2009 compared to 11.4 for fiscal 2008. Average commissions and transaction fees per trade decreased 1% to \$13.35 per trade for fiscal 2009 from \$13.44 for fiscal 2008, primarily due to the June 2009 acquisition of thinkorswim, which earns somewhat lower average commissions and transaction fees per trade, and an increase in promotional trades related to our new account growth during fiscal 2009, partially offset by higher payment for order flow revenue during fiscal 2009.

Net interest revenue decreased 37% to \$346.9 million, due primarily to a 45% decrease in average client margin balances, a decrease of 123 basis points in the average yield earned on client margin balances and a decrease of 238 basis points in the average yield earned on other cash and interest-earning investments in fiscal 2009 compared to fiscal 2008. These decreases were partially offset by a \$94.6 million increase in net interest revenue from our securities borrowing/lending program and a decrease of 51 basis points in the average interest rate paid on client credit balances in fiscal 2009 compared to fiscal 2008.

Insured deposit account fees decreased 10% to \$568.1 million, due primarily to a 140 basis point decrease in the average yield earned on the insured deposit account assets during fiscal 2009, of which 6 basis points (\$13.3 million) resulted from a FDIC special regulatory assessment. This decrease was partially offset by a 41% increase in average insured deposit account balances during fiscal 2009 compared to fiscal 2008.

Investment product fees decreased 40% to \$184.3 million, primarily due to a decrease of 31 basis points in the average yield earned on client money market mutual fund balances, a 14% decrease in average money market mutual fund



balances and an 18% decrease in average other fee-based investment balances in fiscal 2009 compared to fiscal 2008. The decrease in the average yield earned in fiscal 2009 was primarily due to our decision to voluntarily begin waiving fees on certain money market mutual funds during the first quarter of fiscal 2009 in order to prevent our clients' yields on such funds from becoming negative.

In April 2009, we announced a strategy to migrate approximately \$10 to \$14 billion of client cash held in client credit balances or swept to money market mutual funds into the insured deposit account offering. From March 31,

**Table of Contents**

2009 to September 30, 2009, insured deposit account balances increased by approximately \$10.6 billion, while money market mutual fund balances decreased by a similar amount, due in part to the completion of part of the migration. The portion of the migration completed in fiscal 2009 resulted in an increase in insured deposit account fee revenues and a decrease in investment product fee revenues, but did not have a material impact on overall net revenues during fiscal 2009.

Other revenues increased 72% to \$55.4 million, primarily due to an increase in education revenues as a result of the thinkorswim acquisition in June 2009.

*Operating Expenses*

Employee compensation and benefits expense increased 2% to \$511.2 million, due primarily to an increase in average headcount resulting from our fiscal 2008 growth initiatives and the thinkorswim acquisition in June 2009, and an increase of approximately \$2.0 million in severance costs related to staff reductions during fiscal 2009 compared to fiscal 2008. These increases were partially offset by lower incentive-based compensation related to actual Company and individual performance compared to fiscal 2008. The average number of full-time equivalent employees was 4,788 for fiscal 2009 compared to 4,381 for fiscal 2008.

Clearing and execution costs increased 59% to \$70.9 million, due primarily to higher client trading volumes, increased clearing expenses associated with additional accounts and transaction processing volumes resulting from the acquisition of thinkorswim in fiscal 2009 and higher transaction costs from clearing organizations in fiscal 2009 compared to fiscal 2008.

Communications expense increased 19% to \$83.1 million, due primarily to increased costs for quotes and market information related to higher client trading volume during fiscal 2009 compared to fiscal 2008 and communication costs associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition.

Occupancy and equipment costs increased 22% to \$124.3 million, due primarily to higher costs for technology infrastructure and facilities resulting from our fiscal 2008 growth initiatives.

Depreciation and amortization increased 24% to \$45.9 million, due primarily to increased depreciation on technology infrastructure upgrades and leasehold improvements resulting from our fiscal 2008 growth initiatives.

Amortization of acquired intangible assets increased 25% to \$73.9 million, primarily due to amortization of the intangible assets recorded in the acquisitions of Fiserv Trust Company in the second quarter of fiscal 2008 and thinkorswim in the third quarter of fiscal 2009.

Professional services increased 18% to \$127.6 million, primarily due to a \$13 million acquisition earn-out payment, a \$5 million write-off of software development costs, higher usage of consulting and contract services in connection with new product development and technology infrastructure upgrades related to our growth initiatives and the addition of thinkorswim professional services costs during fiscal 2009. These increases were partially offset by fees incurred during fiscal 2008 under the transition services agreements related to the acquisition of Fiserv Trust Company, which were not present during fiscal 2009.

Advertising expense increased 14% to \$197.1 million, primarily due to marketing support for the thinkorswim business, and to a lesser extent increased spending for the TD Ameritrade business during fiscal 2009 in response to competitive market share opportunities.

Losses on money market funds and client guarantees during fiscal 2009 consists of losses associated with our client commitments related to auction rate securities settlement agreements. Losses on money market funds and client guarantees during fiscal 2008 consists of \$27.0 million and \$8.6 million of estimated client and corporate investment losses, respectively, resulting from the net asset value of two money market mutual funds managed by The Reserve, an independent mutual fund company, declining below \$1.00 per share in September 2008. The client losses resulted from our announced commitment of up to \$55 million to mitigate client losses in these funds in the event clients received less than \$1.00 per share upon the orderly liquidation of the funds. These commitments are discussed further under Item 8, Financial Statements and Supplementary Data Notes to Consolidated Financial Statements: Guarantees under Note 14 Commitments and Contingencies.

## **Table of Contents**

Other operating expenses decreased 7% to \$58.7 million, primarily due to lower bad debt and other client-related trading losses in fiscal 2009 compared to fiscal 2008. The decrease was partially offset by additional business resulting from the thinkorswim acquisition in fiscal 2009 and the effect of favorable litigation settlements during fiscal 2008.

### *Other Expenses and Income Taxes*

Interest on borrowings decreased 49% to \$40.1 million, due primarily to lower average interest rates incurred on our debt during fiscal 2009 compared to fiscal 2008. The average interest rate incurred on our debt was 2.44% for fiscal 2009, compared to 4.99% for fiscal 2008.

Our effective income tax rate increased to 39.2% for fiscal 2009 compared to 36.4% for fiscal 2008, due primarily to unfavorable deferred income tax adjustments of approximately \$8.9 million resulting from state income tax law changes and capital loss limitations on certain money market mutual fund holdings during fiscal 2009. These items unfavorably impacted our earnings for fiscal 2009 by approximately \$0.02 per share. The effective income tax rate for fiscal 2008 was unusually low due primarily to \$7.2 million of favorable resolutions of state income tax matters and \$11.1 million of adjustments to current and deferred income taxes resulting from a revision to estimated state income tax expense. The revision was based on our actual state income tax returns filed for calendar year 2006 and similar adjustments applied to estimated state income tax rates for calendar 2007 and future years. These items favorably impacted our earnings for fiscal 2008 by approximately \$0.03 per share.

## **Liquidity and Capital Resources**

We have historically financed our liquidity and capital needs primarily through the use of funds generated from operations and from borrowings under our credit agreements. We have also issued common stock and long-term debt to finance mergers and acquisitions and for other corporate purposes. Our liquidity needs during fiscal 2010 were financed primarily from our earnings and cash on hand. We plan to finance our operational capital and liquidity needs in 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 September 30, 2010, TD Ameritrade, Inc. held ARS with a fair value of approximately \$209 million.

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

Under the SEC's Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934), our broker-dealer subsidiaries are required to maintain, at all times, at least the minimum level of net capital required under Rule 15c3-1. For clearing broker-dealers, this minimum net capital level is determined by a calculation described in Rule 15c3-1 that is primarily based on each broker-dealer's aggregate debits, which primarily are a function of client margin balances at our clearing broker-dealer subsidiary. Since our aggregate debits may fluctuate significantly, our minimum net capital requirements may also fluctuate significantly from period to period. The

**Table of Contents**

parent company may make cash capital contributions to our broker-dealer subsidiaries, if necessary, to meet minimum net capital requirements.

**Liquid Assets**

We consider liquid assets an important measure of our liquidity and of our ability to fund corporate investing and financing activities. Liquid assets is a non-GAAP financial measure. We define liquid assets as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments, (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 5% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of 120% of the minimum dollar net capital requirement or in excess of 81/3% of aggregate indebtedness and (d) Tier 1 capital of our trust company in excess of the minimum dollar requirement. We include the excess capital of our broker-dealer and trust company subsidiaries in liquid assets, rather than simply including broker-dealer and trust 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. Liquid assets should be considered as a supplemental measure of liquidity, rather than as a substitute for cash and cash equivalents. The following table sets forth a reconciliation of cash and cash equivalents, which is the most directly comparable GAAP measure, to liquid assets (dollars in thousands):

	<b>September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>Change</b>
Cash and cash equivalents	\$ 741,492	\$ 791,211	\$ (49,719)
Less: Broker-dealer cash and cash equivalents	(426,618)	(473,996)	47,378
Trust company cash and cash equivalents	(50,937)	(25,143)	(25,794)
Investment advisory cash and cash equivalents	(28,944)	(18,935)	(10,009)
Corporate cash and cash equivalents	234,993	273,137	(38,144)
Plus: Corporate short-term investments		49,496	(49,496)
Excess trust company Tier 1 capital	12,284	4,658	7,626
Excess broker-dealer regulatory net capital	828,979	814,836	14,143
Liquid assets	\$ 1,076,256	\$ 1,142,127	\$ (65,871)

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

Liquid assets as of September 30, 2009	\$ 1,142,127
Plus: Pre-tax income	912,085
Proceeds from exercise of stock options	12,536
Proceeds from the issuance of long-term debt	1,248,557
Other changes in working capital and regulatory net capital	173,706
Less: Income taxes paid	(352,504)

Purchase of property and equipment	(91,198)
Purchase of treasury stock	(265,599)
Prepayment of structured stock repurchase	(169,200)
Principal payments on long-term debt and capital lease obligations	(1,424,407)
Payment of debt issuance costs	(10,595)
Additional net capital requirement due to increase in aggregate debits	(99,252)
Liquid assets as of September 30, 2010	\$ 1,076,256

**Table of Contents**

***Loan Facilities***

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

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

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

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

*Interest Rate Swaps* We are exposed to changes in the fair value of our fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, on December 30, 2009, we entered into fixed-for-variable interest rate swaps on the 2012 Notes and 2014 Notes for notional amounts of \$250 million and \$500 million, respectively, with maturity dates matching the respective maturity dates of the 2012 Notes and 2014 Notes. The interest rate swaps effectively change the fixed-rate interest on the 2012 Notes and 2014 Notes to variable-rate interest. Under the terms of the interest rate swap agreements, we receive semi-annual fixed-rate interest payments based on the same rates applicable to the 2012 Notes and 2014 Notes, and make quarterly variable-rate interest payments based on three-month LIBOR plus (a) 0.9693% for the swap on the 2012 Notes and (b) 1.245% for the swap on the 2014 Notes.

The interest rate swaps are accounted for as fair value hedges and qualify for the shortcut method of accounting. Changes in the payment of interest resulting from the interest rate swaps are recorded as an offset to interest on borrowings on the 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 fiscal 2010, we recorded a \$49.2 million gain for the change in fair value of the interest rate swaps and an offsetting \$49.2 million fair value loss on the hedged fixed-rate debt. The offsetting fair value gains and losses were recorded in interest on borrowings on the Consolidated Statements of Income.



The interest rate swaps are subject to counterparty credit risk. Credit risk is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold and by entering into credit support agreements. The bilateral credit support agreement related to the interest rate swaps requires daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps. As of September 30, 2010, the interest rate swap counterparty had pledged \$52.9 million of collateral to us, in the form of U.S. Treasury securities.

**Table of Contents**

*Restated Revolving Facility* The Restated Credit Agreement consists of an unsecured revolving credit facility in the aggregate principal amount of \$300 million (the Restated Revolving Facility). The maturity date of the Restated Revolving Facility is December 31, 2012. The applicable interest rate under the Restated Revolving Facility is calculated as a per annum rate equal to, at our option, (a) LIBOR plus an interest rate margin (LIBOR loans) or (b) (i) the highest of (x) the prime rate, (y) the federal funds effective rate plus 0.50% or (z) one-month LIBOR plus 1.00%, plus (ii) an interest rate margin (Base Rate loans). The interest rate margin ranges from 2.00% to 4.00% for LIBOR loans and from 1.00% to 3.00% for Base Rate loans, determined by reference to our public debt ratings. We are obligated to pay a commitment fee ranging from 0.225% to 0.750% on any unused amount of the Restated Revolving Facility, determined by reference to our public debt ratings. As of September 30, 2010, the interest rate margin would have been 2.50% for LIBOR loans and 1.50% for Base Rate loans, and the commitment fee was 0.375% per annum, each determined by reference to our Standard & Poor's public debt rating of BBB+. There were no borrowings outstanding under the Restated Revolving Facility as of September 30, 2010.

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

The Restated Credit Agreement contains negative covenants that limit or restrict the incurrence of liens, indebtedness of subsidiaries, mergers, consolidations, transactions with affiliates, change in nature of business and the sale of all or substantially all of our assets and the assets of our subsidiaries, subject to certain exceptions. We are also required to maintain compliance with a maximum consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant, and our broker-dealer subsidiaries are required to maintain compliance with a minimum regulatory net capital covenant. We are restricted under the Restated Credit Agreement from incurring additional indebtedness in an aggregate principal amount in excess of \$100 million that includes any covenants that are more restrictive (taken as a whole) as to the Company than those contained in the Restated Credit Agreement, unless the Restated Credit Agreement is amended to include such more restrictive covenants prior to the incurrence of such additional indebtedness. We were in compliance with all covenants under the Restated Credit Agreement as of September 30, 2010.

*Broker-Dealer Credit Facilities* Our wholly-owned broker-dealer subsidiaries had access to secured uncommitted credit facilities with financial institutions of up to \$630 million as of September 30, 2010 and 2009. The broker-dealer subsidiaries also had access to unsecured uncommitted credit facilities of up to \$150 million as of September 30, 2010 and 2009. The financial institutions may make loans under line of credit arrangements or, in some cases, issue letters of credit under these facilities. The secured credit facilities require us to pledge qualified client securities to secure outstanding obligations under these facilities. Borrowings under the secured and unsecured credit facilities bear interest at a variable rate based on the federal funds rate. There were no borrowings outstanding or letters of credit issued under the secured or unsecured credit facilities as of September 30, 2010 and 2009. As of September 30, 2010 and 2009, approximately \$780 million was available to our broker-dealer subsidiaries pursuant to uncommitted credit facilities for either loans or, in some cases, letters of credit.

***Stock Repurchase Programs***

On August 11, 2009, our board of directors authorized the repurchase of up to 15 million shares of our common stock. During fiscal 2010, we repurchased the 15 million shares authorized at a weighted average purchase price of \$17.25 per share.

On August 5, 2010, our board of directors authorized the repurchase of up to an additional 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 the agreement, we prepaid \$169.2 million to the counterparty. The specific number of shares, if any, that we will purchase from the counterparty will vary 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. Settlement of the transaction will occur after the end of the measurement period, which will end no later than November 30, 2010 and is subject to

**Table of Contents**

early termination by the counterparty. Upon settlement of the transaction, any excess prepayment amount may be returned to us in cash or, at our option, used to purchase additional shares of our common stock.

**Cash Dividend**

On October 26, 2010, our board of directors declared a \$0.05 per share quarterly cash dividend on our common stock. We expect to pay approximately \$29 million on December 15, 2010 to fund this 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 to manage our asset-based revenues. For information on these arrangements, see the following sections under Item 8, Financial Statements and Supplementary Data: Notes to Consolidated Financial Statements: Guarantees under Note 14 Commitments and Contingencies and Insured Deposit Account Agreement under Note 18 Related Party Transactions. The IDA agreement accounts for a significant percentage of our net revenues (27% of our net revenues for the fiscal year ended September 30, 2010) and enables our clients to invest in an FDIC-insured deposit product without the need for the Company to maintain a bank charter.

**Contractual Obligations**

The following table summarizes our contractual obligations as of September 30, 2010 (dollars in thousands):

Contractual Obligations	Total	Payments Due by Period (Fiscal Years):			
		Less Than 1 Year 2011	1-3 Years 2012-13	3-5 Years 2014-15	More Than 5 Years After 2015
Long-term debt obligations(1)	\$ 1,567,273	\$ 42,150	\$ 328,743	\$ 568,513	\$ 627,867
Capital lease obligations	23,654	10,677	10,785	2,192	
Operating lease obligations	352,827	46,732	85,350	73,121	147,624
Purchase obligations	224,967	157,466	40,486	10,288	16,727
Deferred compensation(2)	18,138	18,138			
Income taxes payable(3)	147,368	147,368			
Total	\$ 2,334,227	\$ 422,531	\$ 465,364	\$ 654,114	\$ 792,218

(1) Represents scheduled principal payments, estimated interest payments and commitment fees pursuant to the Senior Notes, the interest rate swaps, the Restated Revolving Facility and other long-term debt obligations. Actual amounts of interest may vary depending on changes in variable interest rates associated with the interest rate swaps.

(2) Our obligation to Joseph H. Moglia, our Chairman and former CEO, for deferred compensation will become payable not sooner than the day after Mr. Moglia's employment with the Company terminates. The obligation is presented in the fiscal 2011 column as the entire amount of the compensation has already been earned by Mr. Moglia.

- (3) A significant portion of our income taxes payable as of September 30, 2010 consists of liabilities for uncertain tax positions and related interest and penalties. The timing of payments, if any, on liabilities for uncertain tax positions cannot be predicted with reasonable accuracy.

#### **Recently Adopted Accounting Pronouncements**

*ASC 805* On October 1, 2009, the Company adopted Accounting Standards Codification ( ASC ) 805, *Business Combinations*. ASC 805 generally requires an acquirer to recognize the identifiable assets acquired, liabilities assumed, contingent purchase consideration and any noncontrolling interest in the acquiree at fair value on the date of acquisition. It also requires an acquirer to recognize as expense most transaction and restructuring costs as incurred, rather than include such items in the cost of the acquired entity. For the Company, ASC 805

## **Table of Contents**

applies prospectively to business combinations for which the acquisition date is on or after October 1, 2009. The adoption of ASC 805 did not have a material impact on the Company's consolidated financial statements.

*ASC 820-10 and ASU 2010-06* On October 1, 2009, the Company adopted ASC 820-10, *Fair Value Measurements and Disclosures*, for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. In January 2010, the Company adopted Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires new disclosures and clarifies existing disclosure requirements about fair value measurements as set forth in ASC 820-10. The adoption of ASC 820-10 and ASU 2010-06 did not have a material impact on the Company's consolidated financial statements.

### **Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and market prices. We have established policies, procedures and internal processes governing our management of market risks in the normal course of our business operations.

#### **Credit Risk**

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

The interest rate swaps on our Senior Notes and the prepayment on our structured stock repurchase agreement 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 and the structured stock repurchase agreement require daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps and the actual amount of the structured stock repurchase prepayment, respectively.

#### **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 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

**Table of Contents**

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 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 September 30, 2010 indicate that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in approximately \$102 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 September 30, 2010, we held ARS with a fair value of \$209 million. A hypothetical 10% decrease in the fair value of our ARS would reduce our pre-tax income by approximately \$21 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.



**Table of Contents**

**Item 8. *Financial Statements and Supplementary Data***

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
TD Ameritrade Holding Corporation

We have audited the accompanying consolidated balance sheets of TD Ameritrade Holding Corporation (the Company ) as of September 30, 2010 and 2009, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended September 30, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TD Ameritrade Holding Corporation at September 30, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TD Ameritrade Holding Corporation s internal control over financial reporting as of September 30, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 19, 2010 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Minneapolis, Minnesota  
November 19, 2010

**Table of Contents****TD AMERITRADE HOLDING CORPORATION****CONSOLIDATED BALANCE SHEETS**

As of September 30, 2010 and 2009

	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 741,492	\$ 791,211
Short-term investments	3,592	52,071
Cash and investments segregated in compliance with federal regulations	994,026	5,813,862
Receivable from brokers, dealers and clearing organizations	1,207,723	1,777,741
Receivable from clients, net of allowance for doubtful accounts: 2010 \$10.5 million; 2009 \$12.9 million	7,391,432	5,712,261
Receivable from affiliates	92,946	92,974
Other receivables, net of allowance for doubtful accounts: 2010 \$0.6 million; 2009 \$0.6 million	68,928	73,921
Securities owned, at fair value	217,234	23,405
Property and equipment, net of accumulated depreciation and amortization: 2010 \$132.9 million; 2009 \$91.3 million	272,211	238,256
Goodwill	2,467,013	2,472,098
Acquired intangible assets, net of accumulated amortization: 2010 \$368.4 million; 2009 \$267.9 million	1,124,259	1,224,722
Deferred income taxes	9,915	17,161
Other assets	136,147	82,127
<b>Total assets</b>	<b>\$ 14,726,918</b>	<b>\$ 18,371,810</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Payable to brokers, dealers and clearing organizations	\$ 1,934,315	\$ 2,491,617
Payable to clients	6,810,391	9,914,823
Accounts payable and accrued liabilities	476,306	700,786
Payable to affiliates	3,244	3,724
Deferred revenue	63,512	72,134
Long-term debt	1,302,269	1,414,900
Capitalized lease obligations	20,799	28,565
Deferred income taxes	344,203	193,978
<b>Total liabilities</b>	<b>10,955,039</b>	<b>14,820,527</b>
<b>Stockholders equity:</b>		
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; 2010 576,134,924 outstanding; 2009 587,109,497 outstanding	6,314	6,314

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Additional paid-in capital	1,390,283	1,574,638
Retained earnings	3,122,305	2,530,117
Treasury stock, common, at cost: 2010 55,246,936 shares; 2009 44,272,363 shares	(747,271)	(559,883)
Deferred compensation	196	171
Accumulated other comprehensive income (loss)	52	(74)
Total stockholders' equity	3,771,879	3,551,283
Total liabilities and stockholders' equity	\$ 14,726,918	\$ 18,371,810

See notes to consolidated financial statements.

**Table of Contents**

**TD AMERITRADE HOLDING CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**For the Years Ended September 30, 2010, 2009 and 2008**

	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands, except per share amounts)</b>		
Revenues:			
Transaction-based revenues:			
Commissions and transaction fees	\$ 1,193,761	\$ 1,253,154	\$ 1,017,456
Asset-based revenues:			
Interest revenue	427,723	362,076	799,189
Brokerage interest expense	(6,065)	(15,165)	(249,616)
Net interest revenue	421,658	346,911	549,573
Insured deposit account fees	682,206	568,084	628,716
Investment product fees	129,308	184,341	309,420
Total asset-based revenues	1,233,172	1,099,336	1,487,709
Other revenues	133,758	55,436	32,191
Net revenues	2,560,691	2,407,926	2,537,356
Operating expenses:			
Employee compensation and benefits	622,449	511,170	503,297
Fair value adjustments of compensation-related derivative instruments			764
Clearing and execution costs	90,367	70,877	44,620
Communications	106,933	83,121	69,564
Occupancy and equipment costs	142,902	124,296	101,787
Depreciation and amortization	57,032	45,891	36,899
Amortization of acquired intangible assets	100,463	73,870	59,275
Professional services	132,218	127,572	108,271
Advertising	250,007	197,121	173,296
Losses (gains) on money market funds and client guarantees	(12,732)	13,829	35,628
Other	105,679	58,701	62,934
Total operating expenses	1,595,318	1,306,448	1,196,335
Operating income	965,373	1,101,478	1,341,021
Other expense (income):			
Interest on borrowings	44,858	40,070	78,447
Loss on debt refinancing	8,392		
Loss (gain) on sale of investments	38	2,003	(928)

Total other expense (income)	53,288	42,073	77,519
Pre-tax income	912,085	1,059,405	1,263,502
Provision for income taxes	319,897	415,700	459,585
Net income	\$ 592,188	\$ 643,705	\$ 803,917
Earnings per share basic	\$ 1.01	\$ 1.11	\$ 1.35
Earnings per share diluted	\$ 1.00	\$ 1.10	\$ 1.33
Weighted average shares outstanding basic	585,128	578,972	593,746
Weighted average shares outstanding diluted	591,922	587,252	603,133

See notes to consolidated financial statements.

**Table of Contents****TD AMERITRADE HOLDING CORPORATION****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****For the Years Ended September 30, 2010, 2009 and 2008**

	<b>Total Common Shares Outstanding</b>	<b>Total Stockholders Equity</b>	<b>Common Stock</b>	<b>Additional Paid-In Capital (In thousands)</b>	<b>Retained Earnings</b>	<b>Treasury Stock</b>	<b>Deferred Compensation</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>
Balance, September 30, 2007	594,688	\$ 2,154,921	\$ 6,314	\$ 1,598,451	\$ 1,086,662	\$ (537,547)	\$ 431	\$ 610
Net income		803,917			803,917			
Net unrealized investment loss, net of \$0.6 million tax Reclassification adjustment for realized gain on investment securities included in net income, net of \$0.2 million tax		(1,028)						(1,028)
Foreign currency translation		(340)						(340)
		(112)						(112)
Total comprehensive income		802,437						
Cumulative effect of adopting Financial Accounting Standards Board Interpretation No. 48 (ASC 740-10)		(4,167)			(4,167)			
Repurchases of common stock	(4,123)	(74,568)				(74,568)		
Issuances of common stock	3	52		13		39		
Options exercised, including tax benefit	2,523	22,506		(8,594)		31,100		
Deferred compensation	40	187		167		312	(292)	
Stock-based compensation expense		23,670		23,663			7	
Balance, September 30, 2008	593,131	2,925,038	6,314	1,613,700	1,886,412	(580,664)	146	(870)
Net income		643,705			643,705			

Net unrealized investment loss, net of \$0.2 million tax		(302)						(302)
Reclassification adjustment for realized loss on investment securities included in net income, net of \$0.8 million tax		1,330						1,330
Foreign currency translation		(232)						(232)
Total comprehensive income		644,501						
Acquisition of Thinkorswim Group Inc.	27,083	385,639		(24,209)		409,848		
Repurchases of common stock	(39,030)	(466,144)				(466,144)		
Issuances of common stock	1,557			(18,412)		18,412		
Options exercised, including tax benefit	4,366	37,227		(21,411)		58,638		
Deferred compensation	2	2		(49)		27	24	
Stock-based compensation expense		25,020		25,019				1
Balance, September 30, 2009	587,109	3,551,283	6,314	1,574,638	2,530,117	(559,883)	171	(74)
Net income		592,188			592,188			
Net unrealized investment gain		1						1
Foreign currency translation		125						125
Total comprehensive income		592,314						
Repurchases of common stock	(15,376)	(265,599)				(265,599)		
Prepayment of structured stock repurchase		(169,200)		(169,200)				
Issuances of common stock	842			(14,677)		14,677		
Options exercised, including tax benefit	3,531	28,189		(34,846)		63,035		
Deferred compensation	29	544		20		499	25	
Stock-based compensation expense		34,348		34,348				

Balance, September 30, 2010	576,135	\$ 3,771,879	\$ 6,314	\$ 1,390,283	\$ 3,122,305	\$ (747,271)	\$ 196	\$ 52
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See notes to consolidated financial statements.



**Table of Contents****TD AMERITRADE HOLDING CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Years Ended September 30, 2010, 2009 and 2008**

	2010	2009	2008
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 592,188	\$ 643,705	\$ 803,917
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	57,032	45,891	36,899
Amortization of acquired intangible assets	100,463	73,870	59,275
Deferred income taxes	154,380	(70,674)	(96,238)
Loss (gain) on sale of investments	38	2,003	(928)
Loss on disposal of property	5,854	6,285	5,145
Losses (gains) on money market funds and client guarantees	(12,732)	13,829	35,628
Loss on debt refinancing	8,392		
Fair value adjustments of derivative instruments			764
Stock-based compensation	34,348	25,020	23,670
Excess tax benefits on stock-based compensation	(15,653)	(8,743)	(13,448)
Other, net	214	874	(4)
Changes in operating assets and liabilities:			
Cash and investments segregated in compliance with federal regulations	4,819,836	(5,553,862)	(260,000)
Receivable from brokers, dealers and clearing organizations	570,018	2,415,389	2,574,088
Receivable from clients, net	(1,679,171)	1,222,255	794,043
Receivable from/payable to affiliates, net	(963)	98,065	(99,732)
Other receivables, net	4,910	32,852	10,920
Securities owned	(183,762)	36,717	(43,287)
Other assets	(2,873)	(4,077)	(7,524)
Payable to brokers, dealers and clearing organizations	(557,302)	(3,278,059)	(2,621,996)
Payable to clients	(3,104,432)	4,844,153	(242,905)
Accounts payable and accrued liabilities	(197,487)	45,425	46,284
Deferred revenue	(8,622)	9,738	(9,155)
Net cash provided by operating activities	584,676	600,656	995,416
Cash flows from investing activities:			
Purchase of property and equipment	(91,198)	(86,698)	(98,836)
Cash and cash equivalents acquired in business combinations		86,423	623,837
Cash paid in business combinations		(266,713)	(274,470)
Cash received in sale of businesses, net		599	
Purchase of short-term investments	(5,790)	(1,100)	(329,759)
Proceeds from sale and maturity of short-term investments	3,300	1,100	894,277
Reclassification of money market funds to short-term investments			(368,066)

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Proceeds from redemption of money market funds	52,208	317,015	
Proceeds from sale of other investments available-for-sale	16	11,688	5,226
Other	(2)	(146)	10
Net cash provided by (used in) investing activities	(41,466)	62,168	452,219
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	1,248,557		
Payment of debt issuance costs	(10,595)		
Principal payments on long-term debt	(1,410,638)	(111,500)	(34,375)
Decrease in trust account deposits			(1,097,808)
Principal payments on capital lease obligations	(13,769)	(5,002)	(3,029)
Proceeds from exercise of stock options	12,536	28,486	9,220
Purchase of treasury stock	(265,599)	(466,144)	(74,568)
Prepayment of structured stock repurchase	(169,200)		
Excess tax benefits on stock-based compensation	15,653	8,743	13,448
Net cash used in financing activities	(593,055)	(545,417)	(1,187,112)
Effect of exchange rate changes on cash and cash equivalents	126	(331)	(175)
Net increase (decrease) in cash and cash equivalents	(49,719)	117,076	260,348
Cash and cash equivalents at beginning of year	791,211	674,135	413,787
Cash and cash equivalents at end of year	\$ 741,492	\$ 791,211	\$ 674,135
Supplemental cash flow information:			
Interest paid	\$ 39,028	\$ 60,680	\$ 346,657
Income taxes paid	\$ 352,504	\$ 359,666	\$ 463,379
Tax benefit on exercises and distributions of stock-based compensation	\$ 19,956	\$ 9,711	\$ 13,517
Noncash investing and financing activities:			
Issuance of capital lease obligations	\$ 6,003	\$ 32,780	\$
Issuance of long-term debt in exchange for assets acquired	\$	\$ 8,400	\$
Issuance of common stock in business combinations	\$	\$ 362,967	\$

See notes to consolidated financial statements.

**Table of Contents**

**TD AMERITRADE HOLDING CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended September 30, 2010, 2009 and 2008**

**1. Nature of Operations and Summary of Significant Accounting Policies**

*Basis of Presentation* The consolidated financial statements include the accounts of TD Ameritrade Holding Corporation, a Delaware corporation, and its wholly-owned subsidiaries (collectively, the Company). Intercompany balances and transactions have been eliminated.

*Nature of Operations* The Company provides securities brokerage services, including trade execution, clearing services and margin lending, through its broker-dealer subsidiaries. The Company provides trustee, custodial and other trust-related services to retirement plans and other custodial accounts through its state-chartered trust company subsidiary. The Company's education subsidiary provides a comprehensive suite of investor education products and services. The Company also provides cash sweep and deposit account products through third-party relationships.

The Company's broker-dealer subsidiaries are subject to regulation by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), the Commodity Futures Trading Commission (CFTC), the National Futures Association (NFA) and the various exchanges in which they maintain membership. Dividends from the Company's broker-dealer and trust company subsidiaries are a source of liquidity for the holding company. Requirements of the SEC, FINRA and CFTC relating to liquidity, net capital standards and the use of client funds and securities may limit funds available for the payment of dividends from the broker-dealer subsidiaries to the holding company. State regulatory requirements may limit funds available for the payment of dividends from the trust company subsidiary to the holding company.

*Use of Estimates* The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* The Company considers temporary, highly-liquid investments with an original maturity of three months or less to be cash equivalents, except for amounts required to be segregated in compliance with federal regulations. The carrying amounts of cash and cash equivalents on the Consolidated Balance Sheets approximate fair value.

*Cash and Investments Segregated in Compliance with Federal Regulations* Cash and investments segregated in compliance with federal regulations consist primarily of qualified deposits in special reserve bank accounts for the exclusive benefit of clients under Rule 15c3-3 of the Securities Exchange Act of 1934 (the Exchange Act) and other regulations. Funds can be held in cash, reverse repurchase agreements, fixed rate U.S. Treasury securities and other qualified securities. Reverse repurchase agreements (securities purchased under agreements to resell) are treated as collateralized financing transactions and are carried at amounts at which the securities will subsequently be resold, plus accrued interest. The Company's reverse repurchase agreements are collateralized by U.S. Treasury securities and generally have a maturity of seven days.

*Securities Borrowed and Securities Loaned* Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash. The Company receives collateral in the form of cash for securities

loaned transactions. For these transactions, the fees earned or incurred by the Company are recorded as interest revenue and brokerage interest expense, respectively, on the Consolidated Statements of Income. The related interest receivable from and the brokerage interest payable to broker-dealers are included in other receivables and in accounts payable and accrued liabilities, respectively, on the Consolidated Balance Sheets.

*Receivable from/Payable to Clients* Receivable from clients primarily consists of margin loans to brokerage clients and is carried at the amount receivable, net of an allowance for doubtful accounts. Payable to clients

**Table of Contents**

**TD AMERITRADE HOLDING CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

primarily consists of client cash held in brokerage accounts and is carried at the amount of client cash on deposit. The Company earns interest revenue and pays interest expense on its receivable from client and payable to client balances, respectively. The interest revenue and expense are included in net interest revenue on the Consolidated Statements of Income.

*Investments* The Company's investments in marketable securities are carried at fair value and are designated as available-for-sale, except for securities owned by the Company's broker-dealer subsidiaries, which are accounted for as trading investments. Unrealized gains and losses on available-for-sale investments, net of deferred income taxes, are reflected as accumulated other comprehensive income (loss). Realized gains and losses on available-for-sale investments are determined on the specific identification method and are reflected on the Consolidated Statements of Income. Unrealized gains and losses on securities accounted for as trading investments are reflected currently on the Consolidated Statements of Income. Investments in equity securities are accounted for under the equity method when the Company has the ability to exercise significant influence over the investee's operating and financial policies. The cost method is used for non-marketable investments that do not meet equity method criteria. Declines in fair value of investments that are considered other than temporary are accounted for as realized losses.

*Depreciation and Amortization* Depreciation is provided on a straight-line basis using estimated useful service lives of three to seven years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

*Software Development* From the date technological feasibility has been established until beta testing is complete, software development costs are capitalized and included in property and equipment. Once the product is fully functional, such costs are amortized in accordance with the Company's normal accounting policies. Software development costs that do not meet capitalization criteria are expensed as incurred.

*Goodwill* The Company has recorded goodwill for purchase business combinations to the extent the purchase price of each completed acquisition exceeded the fair value of the net identifiable assets of the acquired company. The Company tests goodwill for impairment on at least an annual basis. In performing the impairment tests, the Company utilizes quoted market prices of the Company's common stock to estimate the fair value of the Company as a whole. The estimated fair value is then allocated to the Company's reporting units, if applicable, based on operating revenues, and is compared with the carrying value of the reporting units. No impairment charges have resulted from the annual impairment tests.

*Amortization of Acquired Intangible Assets* Acquired intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from one to 23 years. The acquired intangible asset associated with a trademark license agreement is not subject to amortization because the term of the agreement is considered to be indefinite.

*Long-Lived Assets and Acquired Intangible Assets* The Company reviews its long-lived assets and acquired intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company evaluates recoverability by comparing the undiscounted cash flows associated with the asset to the asset's carrying amount. Long-lived assets classified as held for sale, if any, are reported at the lesser of carrying amount or fair value less cost to sell.

*Income Taxes* The Company files a consolidated U.S. income tax return with its subsidiaries on a calendar year basis, combined returns for state tax purposes where required and certain of its subsidiaries file separate state income tax

returns where required. Deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be settled or realized. Uncertain tax positions are recognized if they are more likely than not to be sustained upon examination, based on the technical merits of the position. The amount of tax benefit recognized is the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The Company recognizes interest and penalties, if

**Table of Contents**

**TD AMERITRADE HOLDING CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

any, related to income tax matters as part of the provision for income taxes on the Consolidated Statements of Income.

*Capital Stock* The authorized capital stock of the Company consists of a single class of common stock and one or more series of preferred stock as may be authorized for issuance by the Company's board of directors. Voting, dividend, conversion and liquidation rights of the preferred stock would be established by the board of directors upon issuance of such preferred stock.

*Stock-Based Compensation* The Company measures and recognizes compensation expense based on estimated grant date fair values for all stock-based payment arrangements. Stock-based compensation expense is based on awards expected to vest and therefore is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant based on the Company's historical forfeiture experience and revised in subsequent periods if actual forfeitures differ from those estimates.

*Deferred Compensation* Company common stock held in a rabbi trust pursuant to a Company deferred compensation plan is recorded at the fair value of the stock at the time it is transferred to the rabbi trust and is classified as treasury stock. The corresponding deferred compensation liability is recorded as a component of stockholders' equity.

*Foreign Currency Translation* Assets and liabilities of the Company's foreign subsidiaries that are denominated in a foreign currency are translated into U.S. dollars using the exchange rate in effect at each period end. Results of operations are translated at the average exchange rate during the period. The effects of foreign currency translation adjustments arising from differences in exchange rates from period to period are included in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets.

*Comprehensive Income (Loss)* Comprehensive income (loss) consists of net income; unrealized gains (losses) on securities available-for-sale, net of related income taxes; and foreign currency translation adjustments. These results are incorporated into the Consolidated Statements of Stockholders' Equity.

*Securities Transactions* Client securities transactions are recorded on a settlement-date basis with such transactions generally settling within three business days after the trade date. Revenues and expenses related to securities transactions, including revenues from execution agents (also referred to as payment for order flow), are recorded on a trade-date basis. Revenues related to securities transactions are recorded net of promotional allowances. Securities owned by clients, including those that collateralize margin or similar transactions, are not reflected in the accompanying consolidated financial statements.

*Insured Deposit Account Fees* Insured deposit account fees are recognized in the period earned and consist of revenues resulting from the Insured Deposit Account ( IDA ) agreement with TD Bank USA, N.A. ( TD Bank USA ), TD Bank, N.A. and The Toronto-Dominion Bank ( 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 is described further in Note 18.

*Investment Product Fees* Investment product fee revenue is recognized in the period earned and consists of revenues earned on client assets invested in money market mutual funds, other mutual funds and certain Company-sponsored investment programs.

*Education Revenue Recognition* The Company recognizes education revenue in accordance with Accounting Standards Codification ( ASC ) 605, *Revenue Recognition*. Revenue is not recognized until it is realized or realizable and earned. The criteria to meet this guideline are: (a) persuasive evidence of an arrangement



**Table of Contents**

**TD AMERITRADE HOLDING CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

exists; (b) delivery has occurred or services have been rendered; (c) the price to the buyer is fixed or determinable; and (d) collectibility is reasonably assured. Education revenue is included in other revenues on the Consolidated Statements of Income.

The Company sells investor education products separately and in various bundles that contain multiple deliverables including on-demand coaching services, website subscriptions, educational workshops, online courses and other products and services. In accordance with ASC 605-25, *Multiple-Element Arrangements*, sales arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (a) the product has value to the client on a standalone basis; (b) there is objective and reliable evidence of the fair value of undelivered items; and (c) delivery or performance of any undelivered item is probable and substantially in the Company's control. The fair value of each separate element is generally determined by prices charged when sold separately. In certain arrangements, the Company offers these products bundled together at a discount. The discount is allocated pro rata to each element based on the relative fair value of each element when fair value support exists for each element in the arrangement. Deferred revenue arises because the payments are received before the services have been rendered. Deferred revenue is generally recognized into revenue for each element over the period that the services are performed or the time that the contract period expires.

The Company provides some limited rights of return in connection with investor education products and services. The Company estimates its returns based on historical experience and maintains an allowance for estimated returns, which is included in deferred revenue on the Consolidated Balance Sheets.

*Advertising* The Company expenses advertising costs the first time the advertising takes place.

*Derivatives and Hedging Activities* The Company occasionally utilizes derivative instruments to manage risks, which may include market price, interest rate and foreign currency risks. The Company does not use derivative instruments for speculative or trading purposes. Derivatives are recorded on the Consolidated Balance Sheets as assets or liabilities at fair value. Derivative instruments properly designated to hedge exposure to changes in the fair value of assets or liabilities are accounted for as fair value hedges. Derivative instruments properly designated to hedge exposure to the variability of expected future cash flows or other forecasted transactions are accounted for as cash flow hedges. The Company formally documents the risk management objective and strategy for each hedge transaction. Derivative instruments that do not qualify for hedge accounting are carried at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded currently on the Consolidated Statements of Income.

*Earnings Per Share* Basic earnings per share (EPS) is computed by dividing net income by the weighted average common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, except when such assumed exercise or conversion would have an antidilutive effect on EPS.

***Recently Adopted Accounting Pronouncements***

*ASC 805* On October 1, 2009, the Company adopted ASC 805, *Business Combinations*. ASC 805 generally requires an acquirer to recognize the identifiable assets acquired, liabilities assumed, contingent purchase consideration and any noncontrolling interest in the acquiree at fair value on the date of acquisition. It also requires an acquirer to recognize as expense most transaction and restructuring costs as incurred, rather than include such items in the cost of the acquired entity. For the Company, ASC 805 applies prospectively to business combinations for which the

acquisition date is on or after October 1, 2009. The adoption of ASC 805 did not have a material impact on the Company's consolidated financial statements.

*ASC 820-10 and ASU 2010-06* On October 1, 2009, the Company adopted ASC 820-10, *Fair Value Measurements and Disclosures*, for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. In January 2010, the Company adopted Accounting Standards

**Table of Contents****TD AMERITRADE HOLDING CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**2. Business Combinations**

On June 11, 2009, the Company acquired thinkorswim Group Inc. ( thinkorswim ) for 27.1 million shares of Company common stock and \$225.4 million in cash. thinkorswim offers online brokerage, investor education and related financial products and services for self-directed investors and active traders. The Company's consolidated financial statements include the results of operations for thinkorswim beginning June 12, 2009.

On February 4, 2008, the Company acquired Fiserv Trust Company, an investment support services business and wholly-owned subsidiary of Fiserv, Inc. The Company paid \$274.5 million in cash during fiscal 2008 for this acquisition. Pursuant to the stock purchase agreement, an additional earn-out payment of up to \$100 million in cash was payable following the first anniversary of the acquisition based on the achievement of revenue targets. In May 2009, based on revenues through the February 4, 2009 anniversary date, the Company paid approximately \$41.3 million for the earn-out obligation. The Company's consolidated financial statements include the results of operations for Fiserv Trust Company beginning February 5, 2008.

**3. Goodwill and Acquired Intangible Assets**

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

Balance as of September 30, 2008	\$ 1,947,102
Goodwill recorded in acquisition of thinkorswim Group Inc.	485,999
Fiserv Trust Company earn-out payment	41,266
Purchase accounting adjustments, net of income taxes(1)	(1,300)
Tax benefit on stock-based compensation awards(2)	(969)
Balance as of September 30, 2009	2,472,098
Purchase accounting adjustments, net of income taxes(3)	(782)
Tax benefit on stock-based compensation awards(2)	(4,303)
Balance as of September 30, 2010	\$ 2,467,013

- (1) Purchase accounting adjustments for fiscal 2009 primarily consist of \$0.8 million (net of income taxes) of adjustments decreasing exit liabilities related to the TD Waterhouse Group, Inc. ( TD Waterhouse ) acquisition in fiscal 2006, \$0.3 million (net of income taxes) of adjustments to liabilities related to the Fiserv Trust Company acquisition and \$0.2 million of net adjustments to accruals for uncertain tax positions relating to the TD

Waterhouse acquisition and the Datek Online Holdings Corp. ( Datek ) merger in fiscal 2002.

- (2) Represents the tax benefit realized on replacement stock awards that were issued in connection with the Datek merger and the thinkorswim acquisition. The tax benefit realized on a stock award is recorded as a reduction of goodwill to the extent the Company recorded fair value of the replacement award in the purchase accounting. To the extent any gain realized on a stock award exceeds the fair value of the replacement award recorded in the purchase accounting, the tax benefit on the excess is recorded as additional paid-in capital.
- (3) Purchase accounting adjustments for fiscal 2010 primarily consist of adjustments to assumed liabilities relating to the acquisition of thinkorswim.

Table of Contents**TD AMERITRADE HOLDING CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Acquired intangible assets consist of the following (dollars in thousands):

	2010		September 30,		2009	
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	\$ 1,230,469	\$ (339,937)	\$ 890,532	\$ 1,230,469	\$ (261,183)	\$ 969,286
Technology and content	100,904	(19,203)	81,701	100,904	(4,509)	96,395
Trade names	10,100	(6,844)	3,256	10,100	(1,658)	8,442
Non-competition agreement	5,486	(2,390)	3,096	5,486	(561)	4,925
Trademark license	145,674		145,674	145,674		145,674
	\$ 1,492,633	\$ (368,374)	\$ 1,124,259	\$ 1,492,633	\$ (267,911)	\$ 1,224,722

Amortization expense on acquired intangible assets was \$100.5 million, \$73.9 million and \$59.3 million for fiscal years 2010, 2009 and 2008, respectively. Estimated future amortization expense for acquired intangible assets outstanding as of September 30, 2010 is as follows (dollars in thousands):

Fiscal Year	Estimated Amortization Expense
2011	\$ 96,714
2012	92,897
2013	91,630
2014	91,171
2015	90,288
Thereafter (to 2025)	515,885
Total	\$ 978,585

**4. Cash and Cash Equivalents**

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

	September 30,	
	2010	2009

Corporate	\$ 234,993	\$ 273,137
Broker-dealer subsidiaries	426,618	473,996
Trust company subsidiary	50,937	25,143
Investment advisory subsidiaries	28,944	18,935
Total	\$ 741,492	\$ 791,211

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

**Table of Contents****TD AMERITRADE HOLDING CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Receivable from and Payable to Brokers, Dealers and Clearing Organizations**

Amounts receivable from and payable to brokers, dealers and clearing organizations consist of the following (dollars in thousands):

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
Receivable:		
Deposits paid for securities borrowed	\$ 1,000,607	\$ 1,591,706
Broker-dealers	11,927	11,777
Clearing organizations	191,237	163,982
Securities failed to deliver	3,952	10,276
Total	\$ 1,207,723	\$ 1,777,741
Payable:		
Deposits received for securities loaned	\$ 1,868,724	\$ 2,455,833
Broker-dealers	1,519	8,974
Clearing organizations	26,319	5,875
Securities failed to receive	37,753	20,935
Total	\$ 1,934,315	\$ 2,491,617

**6. Allowance for Doubtful Accounts on Receivables**

The following table summarizes activity in the Company's allowance for doubtful accounts on client and other receivables for the fiscal years indicated (dollars in thousands):

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Beginning balance	\$ 13,536	\$ 22,482	\$ 19,120
Provision for doubtful accounts	2,720	1,171	9,780
Acquired in business combinations		272	401
Write-off of doubtful accounts	(5,144)	(10,389)	(6,819)
Ending balance	\$ 11,112	\$ 13,536	\$ 22,482

**7. Property and Equipment**

Property and equipment consists of the following (dollars in thousands):

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
Leasehold improvements	\$ 102,852	\$ 84,230
Software	72,185	69,020
Computer equipment	174,492	128,284
Other property and equipment	55,615	48,065
	405,144	329,599
Less: Accumulated depreciation and amortization	(132,933)	(91,343)
Property and equipment, net	\$ 272,211	\$ 238,256



Table of Contents**TD AMERITRADE HOLDING CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Long-term Debt**

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

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
\$250 million 2.950% Senior Notes due 2012 (1)	\$ 259,114	\$
\$500 million 4.150% Senior Notes due 2014 (2)	539,525	
\$500 million 5.600% Senior Notes due 2019 (3)	499,368	
Term A Facility		140,625
Term B Facility		1,265,875
Other	4,262	8,400
<b>Total long-term debt</b>	<b>\$ 1,302,269</b>	<b>\$ 1,414,900</b>

(1) Balance includes a \$9.3 million unrealized loss related to an interest rate swap, and is net of unamortized discount of \$0.2 million.

(2) Balance includes a \$39.9 million unrealized loss related to an interest rate swap, and is net of unamortized discount of \$0.4 million.

(3) Balance is net of unamortized discount of \$0.6 million.

Fiscal year maturities on long-term debt outstanding at September 30, 2010 are as follows (dollars in thousands):

2011	\$ 4,262
2012	
2013	250,000
2014	
2015	500,000
Thereafter	500,000
<b>Total</b>	<b>\$ 1,254,262</b>

*Senior Notes* On November 25, 2009 the Company sold, through a public offering, \$1.25 billion aggregate principal amount of unsecured senior notes, consisting of \$250 million aggregate principal amount of 2.950% Senior Notes due December 1, 2012 (the 2012 Notes ), \$500 million aggregate principal amount of 4.150% Senior Notes due December 1, 2014 (the 2014 Notes ) and \$500 million aggregate principal amount of 5.600% Senior Notes due December 1, 2019 (the 2019 Notes ) and, collectively with the 2012 Notes and the 2014 Notes, the Senior Notes ). The

Senior Notes were issued at an aggregate discount of \$1.4 million, which is being amortized to interest expense over the terms of the respective Senior Notes. Interest on the Senior Notes is payable semi-annually in arrears on June 1 and December 1 of each year.

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

The Senior Notes are jointly and severally and fully and unconditionally guaranteed by each of the Company's current and future subsidiaries that is or becomes a borrower or a guarantor under the Restated Credit Agreement.

Table of Contents**TD AMERITRADE HOLDING CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Currently, the only subsidiary guarantor of the obligations under the Senior Notes is TD Ameritrade Online Holdings Corp. ( TDAOH ). The Senior Notes and the guarantee by TDAOH are the general senior unsecured obligations of the Company and TDAOH.

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

*Interest Rate Swaps* The Company is exposed to changes in the fair value of its fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, on December 30, 2009, the Company entered into fixed-for-variable interest rate swaps on the 2012 Notes and 2014 Notes for notional amounts of \$250 million and \$500 million, respectively, with maturity dates matching the respective maturity dates of the 2012 Notes and 2014 Notes. The interest rate swaps effectively change the fixed-rate interest on the 2012 Notes and 2014 Notes to variable-rate interest. Under the terms of the interest rate swap agreements, the Company receives semi-annual fixed-rate interest payments based on the same rates applicable to the 2012 Notes and 2014 Notes, and makes quarterly variable-rate interest payments based on three-month LIBOR plus (a) 0.9693% for the swap on the 2012 Notes and (b) 1.245% for the swap on the 2014 Notes.

The interest rate swaps are accounted for as fair value hedges and qualify for the shortcut method of accounting. Changes in the payment of interest resulting from the interest rate swaps are recorded as an offset to interest on borrowings on the 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 fiscal year 2010, the Company recorded a \$49.2 million gain for the change in fair value of the interest rate swaps and an offsetting \$49.2 million fair value loss on the hedged fixed-rate debt. The offsetting fair value gains and losses were recorded in interest on borrowings on the Consolidated Statements of Income.

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

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
Derivatives recorded under the caption Other assets:		
Interest rate swap assets	\$ 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 agreement related to the interest rate swaps requires daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps. As of September 30, 2010, the interest rate swap counterparty had pledged \$52.9 million of collateral to the Company, in the form of U.S. Treasury securities.

*Restated Revolving Facility* The Restated Credit Agreement consists of an unsecured revolving credit facility in the aggregate principal amount of \$300 million (the Restated Revolving Facility). The maturity date of the Restated Revolving Facility is December 31, 2012. The applicable interest rate under the Restated Revolving Facility is calculated as a per annum rate equal to, at the option of the Company, (a) LIBOR plus an interest rate margin ( LIBOR loans ) or (b) (i) the highest of (x) the prime rate, (y) the federal funds effective rate plus 0.50% or (z) one-month LIBOR plus 1.00%, plus (ii) an interest rate margin ( Base Rate loans ). The interest rate margin ranges from 2.00% to 4.00% for LIBOR loans and from 1.00% to 3.00% for Base Rate loans, determined by reference to the Company's public debt ratings. The Company is obligated to pay a commitment fee ranging from 0.225% to 0.750% on any unused amount of the Restated Revolving Facility, determined by reference to the

**Table of Contents****TD AMERITRADE HOLDING CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company's public debt ratings. As of September 30, 2010, the interest rate margin would have been 2.50% for LIBOR loans and 1.50% for Base Rate loans, and the commitment fee was 0.375% per annum, each determined by reference to the Company's Standard & Poor's public debt rating of BBB+. There were no borrowings outstanding under the Restated Revolving Facility as of September 30, 2010.

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

The Restated Credit Agreement contains negative covenants that limit or restrict the incurrence of liens, indebtedness of subsidiaries, mergers, consolidations, transactions with affiliates, change in nature of business and the sale of all or substantially all of the assets of the Company and its subsidiaries, subject to certain exceptions. The Company is also required to maintain compliance with a maximum consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant, and the Company's broker-dealer subsidiaries are required to maintain compliance with a minimum regulatory net capital covenant. The Company is restricted under the Restated Credit Agreement from incurring additional indebtedness in an aggregate principal amount in excess of \$100 million that includes any covenants that are more restrictive (taken as a whole) as to the Company than those contained in the Restated Credit Agreement, unless the Restated Credit Agreement is amended to include such more restrictive covenants prior to the incurrence of such additional indebtedness. The Company was in compliance with all covenants under the Restated Credit Agreement as of September 30, 2010.

*Broker-Dealer Credit Facilities* The Company, through its wholly-owned broker-dealer subsidiaries, had access to secured uncommitted credit facilities with financial institutions of up to \$630 million as of September 30, 2010 and 2009. The broker-dealer subsidiaries also had access to unsecured uncommitted credit facilities of up to \$150 million as of September 30, 2010 and 2009. The financial institutions may make loans under line of credit arrangements or, in some cases, issue letters of credit under these facilities. The secured credit facilities require the Company to pledge qualified client securities to secure outstanding obligations under these facilities. Borrowings under the secured and unsecured credit facilities bear interest at a variable rate based on the federal funds rate. There were no borrowings outstanding or letters of credit issued under the secured or unsecured credit facilities as of September 30, 2010 and 2009. As of September 30, 2010 and 2009, approximately \$780 million was available to the Company's broker-dealer subsidiaries pursuant to uncommitted credit facilities for either loans or, in some cases, letters of credit.

**9. Income Taxes**

Provision for income taxes is comprised of the following for the fiscal years indicated (dollars in thousands):

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Current expense (benefit):			
Federal	\$ 168,972	\$ 438,911	\$ 505,270
State	(3,770)	47,113	50,196
Foreign	315	350	357

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	165,517	486,374	555,823
Deferred expense (benefit):			
Federal	145,349	(70,656)	(76,843)
State	9,031	(18)	(19,395)
	154,380	(70,674)	(96,238)
Provision for income taxes	\$ 319,897	\$ 415,700	\$ 459,585

**Table of Contents****TD AMERITRADE HOLDING CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A reconciliation of the federal statutory tax rate to the effective tax rate applicable to pre-tax income follows for the fiscal years indicated:

	2010	2009	2008
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal tax effect	2.4	2.4	2.6
Adjustments to estimated state income taxes	0.5	0.5	(0.9)
Interest recorded on unrecognized tax benefits, net	(0.2)	0.9	0.1
Reversal of accruals for unrecognized tax benefits	(2.5)		(0.3)
Capital loss limitation		0.3	
Other	(0.1)	0.1	(0.1)
	35.1%	39.2%	36.4%

The Company's effective income tax rate for fiscal year 2010 was 35.1%, compared to 39.2% and 36.4% for fiscal years 2009 and 2008, respectively. The provision for income taxes for fiscal year 2010 was unusually low due to \$32.0 million of favorable resolutions of certain federal and state income tax matters. These items favorably impacted the Company's earnings for fiscal year 2010 by approximately \$0.05 per share. The provision for income taxes for fiscal year 2009 was slightly higher than normal due to unfavorable deferred income tax adjustments of \$8.9 million resulting from state income tax law changes and capital loss limitations on certain money market mutual fund holdings. These items unfavorably impacted the Company's earnings for fiscal year 2009 by approximately \$0.02 per share. The provision for income taxes for fiscal year 2008 was unusually low due to \$7.2 million (net of the federal benefit) of favorable resolutions of state income tax matters and \$11.1 million (net of the federal benefit) of adjustments to current and deferred income taxes resulting from a revision to estimated state income tax expense. The revision was based on the Company's actual state income tax returns filed for calendar year 2006 and similar adjustments applied to estimated state income tax rates for calendar year 2007 and future years. These items favorably impacted the Company's earnings for fiscal year 2008 by approximately \$0.03 per share.

**Table of Contents****TD AMERITRADE HOLDING CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Deferred tax assets (liabilities) are comprised of the following (dollars in thousands):

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
Deferred tax assets:		
Accrued liabilities	\$ 83,532	\$ 104,744
Deferred revenue	8,960	707
Intangible assets, state tax benefit	21,504	23,490
Stock-based compensation	21,516	15,575
Allowance for doubtful accounts	4,037	4,936
Unrealized tax gain on IDA agreement	15,272	164,165
Operating loss carryforwards	34,031	25,958
Other deferred tax assets		2,431
Gross deferred tax assets	188,852	342,006
Less: Valuation allowance	(29,987)	(21,587)
Net deferred tax assets	158,865	320,419
Deferred tax liabilities:		
Property and intangible assets	(488,814)	(493,445)
Other deferred tax liabilities	(4,339)	(3,791)
Total deferred tax liabilities	(493,153)	(497,236)
Net deferred tax liabilities	\$ (334,288)	\$ (176,817)

Included in deferred tax assets above as of September 30, 2010 and 2009, is approximately \$9.9 million and \$17.2 million, respectively, of deferred tax benefits relating to intangible asset amortization deductions expected to be claimed in various state taxing jurisdictions, which may not be offset by deferred tax liabilities arising from different taxing jurisdictions on the Consolidated Balance Sheets. These amounts are presented separately as assets on the Consolidated Balance Sheets.

The unrealized tax gain on IDA agreement in the table above is attributable to the tax basis in the Company's marketing fee associated with the IDA agreement described in Note 18. The tax basis represents the tax gains recorded based on the increase in the fair market values of the underlying securities held by the Depository Institutions, which are supported by the client insured deposit account balances. The unrealized tax gains decreased significantly during fiscal 2010, due primarily to resolution with the taxing authority of an uncertainty as to the tax treatment of the IDA agreement.

As of September 30, 2010, the Company has recorded a tax benefit for approximately \$4.4 million of federal net operating loss carryover that was acquired as part of the thinkorswim acquisition. The net operating loss expires in



2019, and is subject to substantial annual limitations on the utilization of the net operating loss. The amount of tax benefit recorded in the financial statements represents the amount that is more likely than not to be realized within the carryforward period. At September 30, 2010, subsidiaries of the Company have approximately \$617 million of separate state operating loss carryforwards. These carryforwards expire between fiscal 2011 and 2029. Because the realization of the tax benefit from state loss carryforwards is dependent on certain subsidiaries generating sufficient state taxable income in future periods, as well as annual limitations on future utilization, the Company has provided a valuation allowance against the computed benefit in order to reflect the tax benefit expected to be realized. The increase in the valuation allowance of approximately \$8.4 million from September 30, 2009 to September 30, 2010 related to additional net operating losses generated at the separate subsidiaries, for which the related tax benefits are not considered more likely than not to be realized within the carryforward period.

**Table of Contents****TD AMERITRADE HOLDING CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A reconciliation of the activity related to unrecognized tax benefits follows for the fiscal years indicated (dollars in thousands):

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Beginning balance	\$ 310,255	\$ 227,025	\$ 135,096
Additions based on tax positions related to the current year	15,367	87,894	103,409
Additions for tax positions of prior years	2,911	338	555
Reductions for tax positions of prior years	(5,986)	(4,494)	(77)
Reductions due to settlements with taxing authorities	(170,739)		(11,082)
Reductions due to lapsed statute of limitations	(3,272)	(508)	(876)
Ending balance	\$ 148,536	\$ 310,255	\$ 227,025

The balance of unrecognized tax benefits as of September 30, 2010 was \$148.5 million (\$96.9 million net of the federal benefit on state matters), of which \$90.8 million (net of the federal benefit on state matters) represents the amount that, if recognized, would favorably affect the effective income tax rate in any future periods. The balance of unrecognized tax benefits as of September 30, 2009 was \$310.3 million (\$253.6 million net of the federal benefit on state matters), of which \$100.4 million (net of the federal benefit on state matters) represents the amount that, if recognized, would favorably affect the effective income tax rate in any future periods. The Company's income tax returns are subject to review and examination by federal, state and local taxing authorities. The federal returns for 2007 through 2009 remain open under the statute of limitations. The years open to examination by state and local government authorities vary by jurisdiction, but the statute of limitations is generally three to four years from the date the tax return is filed. It is reasonably possible that the gross unrecognized tax benefits as of September 30, 2010 could decrease by up to \$29.7 million (\$19.3 million net of the federal benefit on state matters) within the next twelve months as a result of settlements of certain examinations or expiration of the statute of limitations with respect to other tax filings.

Interest and penalties recognized on the Consolidated Statements of Income (net of the federal benefit) totaled \$0.4 million, \$12.9 million and \$1.3 million for fiscal years 2010, 2009 and 2008, respectively. As of September 30, 2010 and 2009, accrued interest and penalties related to unrecognized tax benefits was \$38.0 million and \$40.2 million, respectively.

**10. Capital Requirements**

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

**Table of Contents**

**TD AMERITRADE HOLDING CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	<b>2010 Minimum</b>	<b>September 30, 2009 Minimum</b>
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