TD AMERITRADE HOLDING CORP
Form 10-Q
February 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2011**

OR

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**

Commission file number: 0-49992

TD Ameritrade Holding Corporation

(Exact name of registrant as specified in its charter)

Delaware	**82-0543156**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4211 South 102nd Street, Omaha, Nebraska, 68127

(Address of principal executive offices) (Zip Code)

(402) 331-7856

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes x 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. Yes x No ¨

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

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

As of January 30, 2012, there were 548,593,141 outstanding shares of the registrant s common stock.

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TD AMERITRADE HOLDING CORPORATION

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

TD Ameritrade Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD Ameritrade Holding Corporation (the Company) as of December 31, 2011, and the related condensed consolidated statements of income and cash flows for the three-month periods ended December 31, 2011 and 2010. These financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of TD Ameritrade Holding Corporation as of September 30, 2011, and the related consolidated statements of income, stockholders equity, and cash flows for the year then ended (not presented herein) and in our report dated November 18, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Chicago, Illinois

February 7, 2012

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Columnar amounts in thousands)

	December 31, 2011 (Unaudited)	September 30, 2011
ASSETS		
Cash and cash equivalents	$ 918,262	$ 1,031,963
Cash and investments segregated in compliance with federal regulations (including reverse repurchase agreements of $3.5 billion at December 31, 2011 and $1.9 billion at September 30, 2011)	6,070,405	2,519,249
Receivable from brokers, dealers and clearing organizations	828,752	834,469
Receivable from clients, net	7,666,864	8,059,410
Receivable from affiliates	102,211	92,963
Other receivables, net	103,574	115,316
Securities owned, at fair value	376,036	446,609
Property and equipment, net	351,685	340,690
Goodwill	2,466,978	2,466,978
Acquired intangible assets, net	1,001,057	1,024,352
Deferred income taxes	3,560	4,642
Other assets	191,068	189,121
Total assets	$ 20,080,452	$ 17,125,762
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 1,599,388	$ 1,709,572
Payable to clients	12,082,431	8,979,327
Accounts payable and accrued liabilities	518,366	585,720
Payable to affiliates	3,479	3,912
Deferred revenue	39,187	42,230
Long-term debt	1,334,446	1,336,789
Capitalized lease obligations	8,834	10,784
Deferred income taxes	355,991	341,611
Total liabilities	15,942,122	13,009,945
Stockholders equity:		
Preferred stock, $0.01 par value; 100 million shares authorized, none issued		
Common stock, $0.01 par value; one billion shares authorized; 631,381,860 shares issued; December 31, 2011- 548,385,332 outstanding; September 30, 2011 - 554,285,716 outstanding	6,314	6,314
Additional paid-in capital	1,586,041	1,583,327
Retained earnings	3,764,768	3,645,846
Treasury stock, common, at cost - December 31, 2011 - 82,996,528 shares; September 30, 2011 - 77,096,144 shares	(1,219,121)	(1,119,969)
Deferred compensation	146	146
Accumulated other comprehensive income	182	153
Total stockholders equity	4,138,330	4,115,817
Total liabilities and stockholders equity	$ 20,080,452	$ 17,125,762

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended December 31,	
	2011	2010
Revenues:		
Transaction-based revenues:		
Commissions and transaction fees	$ 273,383	$ 292,696
Asset-based revenues:		
Interest revenue	110,754	116,820
Brokerage interest expense	(1,406)	(1,292)
Net interest revenue	109,348	115,528
Insured deposit account fees	205,042	178,471
Investment product fees	43,487	40,697
Total asset-based revenues	357,877	334,696
Other revenues	22,132	28,798
Net revenues	653,392	656,190
Operating expenses:		
Employee compensation and benefits	172,766	162,406
Clearing and execution costs	20,041	23,799
Communications	28,134	26,914
Occupancy and equipment costs	37,853	35,191
Depreciation and amortization	16,986	16,136
Amortization of acquired intangible assets	23,295	24,591
Professional services	45,010	40,316
Advertising	56,628	74,583
Other	24,168	18,167
Total operating expenses	424,881	422,103
Operating income	228,511	234,087
Other expense:		
Interest on borrowings	7,045	10,825
Pre-tax income	221,466	223,262
Provision for income taxes	69,506	78,223
Net income	$ 151,960	$ 145,039
Earnings per share - basic	$ 0.28	$ 0.25

Earnings per share - diluted	$ 0.27	$ 0.25
Weighted average shares outstanding - basic	549,746	575,485
Weighted average shares outstanding - diluted	555,292	581,243
Dividends declared per share	$ 0.06	$ 0.05

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands, except share amounts)

	Three Months Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net income	$ 151,960	$ 145,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,986	16,136
Amortization of acquired intangible assets	23,295	24,591
Deferred income taxes	15,463	6,538
Loss on disposal of property	317	284
Stock-based compensation	10,048	8,781
Excess tax benefits on stock-based compensation	(7,707)	(4,634)
Other, net	(1,003)	60
Changes in operating assets and liabilities:		
Cash and investments segregated in compliance with federal regulations	(3,551,156)	466,683
Receivable from brokers, dealers and clearing organizations	5,717	262,901
Receivable from clients, net	392,546	(924,003)
Receivable from/payable to affiliates, net	(9,568)	(7,018)
Other receivables, net	11,742	1,033
Securities owned	70,573	18,893
Other assets	(3,767)	(6,208)
Payable to brokers, dealers and clearing organizations	(110,184)	(136,505)
Payable to clients	3,103,104	201,173
Accounts payable and accrued liabilities	(59,766)	17,968
Deferred revenue	(3,043)	(6,483)
Net cash provided by operating activities	55,557	85,229
Cash flows from investing activities:		
Purchase of property and equipment	(28,298)	(30,225)
Cash received in sale of business		5,228
Other	482	
Net cash used in investing activities	(27,816)	(24,997)

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(In thousands, except share amounts)

	Three Months Ended December 31, 2011	2010
Cash flows from financing activities:		
Principal payments on capital lease obligations	$ (1,950)	$ (1,945)
Proceeds from exercise of stock options; Three months ended December 31, 2011 - 73,168 shares; 2010 - 113,012 shares	359	718
Purchase of treasury stock; Three months ended December 31, 2011 - 7,179,271 shares; 2010 - 121,487 shares	(114,552)	(2,034)
Return of prepayment on structured stock repurchase		118,834
Payment of cash dividends	(33,038)	(28,680)
Excess tax benefits on stock-based compensation	7,707	4,634
Net cash provided by (used in) financing activities	(141,474)	91,527
Effect of exchange rate changes on cash and cash equivalents	32	132
Net increase (decrease) in cash and cash equivalents	(113,701)	151,891
Cash and cash equivalents at beginning of period	1,031,963	741,492
Cash and cash equivalents at end of period	$ 918,262	$ 893,383
Supplemental cash flow information:		
Interest paid	$ 7,990	$ 18,402
Income taxes paid	$ 98,642	$ 54,003
Noncash financing activities:		
Settlement of structured stock repurchase; 3,159,360 shares	$	$ 50,366

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three-Month Periods Ended December 31, 2011 and 2010

(Unaudited)

1. BASIS OF PRESENTATION

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

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s annual report filed on Form 10-K for the fiscal year ended September 30, 2011.

Recently Issued Accounting Pronouncements

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

ASU 2011-11 In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities.* The amendments in ASU 2011-11 will enhance disclosures by requiring improved information about financial and derivative instruments that are either 1) offset (netting assets and liabilities) in accordance with Section 210-20-45 or Section 815-10-45 of the FASB Accounting Standards Codification or 2) subject to an enforceable master netting arrangement or similar agreement. ASU 2011-11 is effective for annual periods beginning on or after January 1, 2013, and interim periods within those annual periods, and requires retrospective disclosures for comparative periods presented. Therefore, ASU 2011-11 will be effective for the Company s fiscal year beginning October 1, 2013. Adoption of ASU 2011-11 is not expected to have a material impact on the Company s financial statements.

2. ACQUIRED INTANGIBLE ASSETS

The Company s acquired intangible assets consist of the following as of December 31, 2011 (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	$ 1,227,592	$ (434,985)	$ 792,607
Technology and content	99,161	(37,193)	61,968
Non-competition agreement	5,486	(4,678)	808
Trademark license	145,674		145,674

	$ 1,477,913	$ (476,856)	$ 1,001,057

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Estimated future amortization expense for acquired intangible assets outstanding as of December 31, 2011 is as follows (dollars in thousands):

Fiscal Year	Estimated Amortization Expense
2012 Remaining	$ 68,818
2013	90,845
2014	90,384
2015	89,654
2016	85,544
Thereafter (to 2025)	430,138
Total	$ 855,383

3. CASH AND CASH EQUIVALENTS

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

	December 31, 2011	September 30, 2011
Corporate	$ 401,443	$ 259,986
Broker-dealer subsidiaries	443,679	656,206
Trust company subsidiary	61,857	108,587
Investment advisory subsidiaries	11,283	7,184
Total	$ 918,262	$ 1,031,963

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

4. INCOME TAXES

The Company s effective income tax rate for the three months ended December 31, 2011 was 31.4%, compared to 35.0% for the three months ended December 31, 2010. The provision for income taxes for the three months ended December 31, 2011 was lower than normal due to $13.8 million of favorable resolutions of state income tax matters. This favorably impacted the Company s earnings for the three months ended December 31, 2011 by approximately 2.5 cents per share. The provision for income taxes for the three months ended December 31, 2010 was lower than normal due to $4.9 million of favorable resolutions of state income tax matters and $1.4 million of favorable deferred income tax adjustments resulting from state income tax law changes. These items favorably impacted the Company s earnings for the three months ended December 31, 2010 by approximately one cent per share.

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5. LONG-TERM DEBT

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

December 31, 2011	Face Value	Unamortized Discount	Fair Value Adjustment [1]	Net Carrying Value
Senior Notes:				
2.950% Senior Notes due 2012	$ 250,000	$ (78)	$ 2,946	$ 252,868
4.150% Senior Notes due 2014	500,000	(288)	29,882	529,594
5.600% Senior Notes due 2019	500,000	(545)	52,529	551,984
Total long-term debt	$ 1,250,000	$ (911)	$ 85,357	$ 1,334,446

September 30, 2011	Face Value	Unamortized Discount	Fair Value Adjustment [1]	Net Carrying Value
Senior Notes:				
2.950% Senior Notes due 2012	$ 250,000	$ (100)	$ 4,170	$ 254,070
4.150% Senior Notes due 2014	500,000	(313)	33,223	532,910
5.600% Senior Notes due 2019	500,000	(562)	50,371	549,809
Total long-term debt	$ 1,250,000	$ (975)	$ 87,764	$ 1,336,789

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

Interest Rate Swaps The Company is exposed to changes in the fair value of its fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, on December 30, 2009, the Company entered into fixed-for-variable interest rate swaps on the 2.950% Senior Notes due December 1, 2012 (the 2012 Notes) and the 4.150% Senior Notes due December 1, 2014 (the 2014 Notes) for notional amounts of $250 million and $500 million, respectively, with maturity dates matching the respective maturity dates of the 2012 Notes and 2014 Notes. In addition, on January 7, 2011, the Company entered into a fixed-for-variable interest rate swap on the 5.600% Senior Notes due December 1, 2019 (the 2019 Notes) for a notional amount of $500 million, with a maturity date matching the maturity date of the 2019 Notes. The interest rate swaps effectively change the fixed-rate interest on the Senior Notes to variable-rate interest. Under the terms of the interest rate swap agreements, the Company receives semi-annual fixed-rate interest payments based on the same rates applicable to the Senior Notes, and makes quarterly variable-rate interest payments based on three-month LIBOR plus (a) 0.9693% for the swap on the 2012 Notes, (b) 1.245% for the swap on the 2014 Notes and (c) 2.3745% for the swap on the 2019 Notes. As of December 31, 2011, the weighted-average effective interest rate on the Senior Notes was 2.17%.

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 in interest on borrowings on the Condensed Consolidated Statements of Income. Changes in fair value of the interest rate swaps are completely offset by changes in fair value of the related notes, resulting in no effect on net income. The following table summarizes gains and losses resulting from changes in the fair value of the interest rate swaps and the hedged fixed-rate debt for the periods indicated (dollars in thousands):

Three Months Ended December 31,

	2011	2010
Gain (loss) on fair value of interest rate swaps	$ (2,407)	$ (19,515)
Gain (loss) on fair value of hedged fixed-rate debt	2,407	19,515
Net gain (loss) recorded in interest on borrowings	$	$

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

	December 31, 2011	September 30, 2011
Derivatives recorded under the caption Other assets:		
Interest rate swap assets	$ 85,357	$ 87,764

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The interest rate swaps are subject to counterparty credit risk. Credit risk is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold and by entering into credit support agreements. The bilateral credit support agreements related to the interest rate swaps require daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps. As of December 31, 2011, the interest rate swap counterparties for the Senior Notes had pledged $85.9 million of collateral to the Company in the form of cash. As of September 30, 2011, the interest rate swap counterparty for the 2012 Notes and 2014 Notes had pledged $50.1 million of collateral to the Company in the form of U.S. Treasury securities and the interest rate swap counterparty for the 2019 Notes had pledged $57.5 million of collateral in the form of cash. Collateral pledged to the Company in the form of cash is included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets.

6. CAPITAL REQUIREMENTS

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

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

	December 31, 2011			September 30, 2011		
	Net Capital	Minimum Net Capital Required	Excess Net Capital	Net Capital	Minimum Net Capital Required	Excess Net Capital
TD Ameritrade Clearing, Inc.	$ 1,182,944	$ 178,544	$ 1,004,400	$ 1,263,535	$ 199,308	$ 1,064,227
TD Ameritrade, Inc.	276,307	1,000	275,307	374,907	1,000	373,907
Totals	$ 1,459,251	$ 179,544	$ 1,279,707	$ 1,638,442	$ 200,308	$ 1,438,134

TD Ameritrade Clearing, Inc. is a clearing broker-dealer and TD Ameritrade, Inc. is an introducing broker-dealer.

The Company s non-depository trust company subsidiary, TD Ameritrade Trust Company (TDATC), is subject to capital requirements established by the State of Maine, which requires TDATC to maintain minimum Tier 1 capital, as defined. TDATC s Tier 1 capital was $19.0 million and $18.6 million as of December 31, 2011 and September 30, 2011, respectively, which exceeded the required Tier 1 capital by $9.0 million and $8.6 million, respectively.

7. COMMITMENTS AND CONTINGENCIES

Reserve Fund Matters During September 2008, The Reserve, an independent mutual fund company, announced that the net asset value of the Reserve Yield Plus Fund declined below $1.00 per share. The Yield Plus Fund was not a money market mutual fund, but its stated objective was to maintain a net asset value of $1.00 per share. TD Ameritrade, Inc. s clients continue to hold shares in the Yield Plus Fund (now known as Yield Plus Fund In Liquidation), which is being liquidated. On July 23, 2010, The Reserve announced that through that date it had distributed approximately 94.8% of the Yield Plus Fund assets as of September 15, 2008 and that the Yield Plus Fund had approximately $39.7 million in total remaining assets. The Reserve stated that the fund s Board of Trustees has set aside almost the entire amount of the remaining assets to cover potential claims, fees and expenses. The Company estimates that TD Ameritrade, Inc. clients current positions held in the Reserve Yield Plus Fund amount to approximately 79% of the fund.

TD Ameritrade, Inc. has received subpoenas and other requests for documents and information from the SEC and other regulatory authorities regarding TD Ameritrade, Inc. s offering of the Yield Plus Fund to clients. TD Ameritrade, Inc. is cooperating with the investigations and requests. On January 27, 2011, TD Ameritrade, Inc. entered into a settlement with the SEC, agreeing to the entry of an Order Instituting

Administrative Proceedings Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions (Order). In the Order, the SEC finds that TD Ameritrade, Inc. failed reasonably to supervise its registered representatives with a view to preventing their violations of Section 17(a)(2) of the Securities Act of 1933 in connection with their offer and sale of the Yield Plus Fund. TD Ameritrade, Inc. did not admit or deny any of the findings in the Order, and no fine was imposed. Under the settlement agreement, TD Ameritrade, Inc. agreed to pay $0.012 per share to all eligible current or former clients that purchased shares of the Yield Plus

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

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

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

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

The Company is unable to predict the outcome or the timing of the ultimate resolution of the Pennsylvania action and the Ross lawsuit, or the potential loss, if any, that may result from these unresolved matters. However, management believes the outcome of these pending proceedings is not likely to have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

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

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

Income Taxes The Company s federal and state income tax returns are subject to examination by taxing authorities. Because the application of tax laws and regulations to many types of transactions is subject to varying interpretations, amounts reported in the condensed consolidated financial statements could be significantly changed at a later date upon final determinations by taxing authorities. The Toronto-Dominion Bank (TD) has agreed to indemnify the Company for tax obligations, if any, pertaining to activities of TD Waterhouse Group, Inc. (TD Waterhouse) prior to the Company s acquisition of TD Waterhouse in January 2006.

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

The Company extends margin credit and leverage to its clients. In margin transactions, the Company extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client s

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account. In connection with these activities, the Company also executes and clears client transactions involving the sale of securities not yet purchased (short sales). Such margin-related transactions may expose the Company to credit risk in the event a client s assets are not sufficient to fully cover losses that the client may incur. Leverage involves securing a large potential future obligation with a lesser amount of cash and securities. The risks associated with margin credit and leverage increase during periods of rapid market movements, or in cases where leverage or collateral is concentrated and market movements occur. In the event the client fails to satisfy its obligations, the Company has the authority to purchase or sell financial instruments in the client s account at prevailing market prices in order to fulfill the client s obligations. However, during periods of rapid market movements, clients who utilize margin credit or leverage and who have collateralized their obligations with securities may find that the securities have a rapidly depreciating value and may not be sufficient to cover their obligations in the event of liquidation. The Company seeks to mitigate the risks associated with its client margin and leverage activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels throughout each trading day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

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

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

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

As of December 31, 2011, client excess margin securities of approximately $10.6 billion and stock borrowings of approximately $0.5 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned approximately $1.6 billion and repledged approximately $1.3 billion of that collateral as of December 31, 2011.

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

The Company clears its clients futures transactions through an external clearing firm. The Company has agreed to indemnify the external clearing firm for any loss that they may incur for the client accounts introduced to them by the Company.

See Insured Deposit Account Agreement in Note 11 for a description of a guarantee included in that agreement.

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

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8. FAIR VALUE DISCLOSURES

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

ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels, as follows:

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

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

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

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The following tables present the Company s fair value hierarchy for assets and liabilities measured on a recurring basis as of December 31, 2011 and September 30, 2011 (dollars in thousands):

	As of December 31, 2011			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	$ 782,057	$	$	$ 782,057
Investments segregated in compliance with federal regulations:				
U.S. government debt securities		1,864,385		1,864,385
Securities owned:				
Auction rate securities			7,608	7,608
Money market and other mutual funds	2,610		1,098	3,708
Equity securities	793	281		1,074
U.S. government debt securities		361,892		361,892
Municipal debt securities		1,205		1,205
Corporate debt securities		470		470
Other debt securities		79		79
Subtotal - Securities owned	3,403	363,927	8,706	376,036
Other assets:				
U.S. government debt securities		2,522		2,522
U.S. government agency debt securities		1,018		1,018
Interest rate swaps[(1)]		85,357		85,357
Subtotal - Other assets		88,897		88,897
Total assets at fair value	$ 785,460	$ 2,317,209	$ 8,706	$ 3,111,375
Liabilities:				
Accounts payable and accrued liabilities:				
Securities sold, not yet purchased:				
Equity securities	$ 13,493	$ 80	$	$ 13,573
Municipal debt securities		160		160
Corporate debt securities		9		9
Other debt securities		4		4
Total liabilities at fair value	$ 13,493	$ 253	$	$ 13,746

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

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	As of September 30, 2011			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	$ 949,804	$	$	$ 949,804
Securities owned:				
Auction rate securities			19,609	19,609
Money market and other mutual funds			1,098	1,098
Equity securities	521	278		799
U.S. government debt securities		423,010		423,010
Municipal debt securities		972		972
Corporate debt securities		653		653
Other debt securities		468		468
Subtotal - Securities owned	521	425,381	20,707	446,609
Other assets:				
U.S. government debt securities		2,528		2,528
U.S. government agency debt securities		1,029		1,029
Interest rate swaps [(1)]		87,764		87,764
Subtotal - Other assets		91,321		91,321
Total assets at fair value	$ 950,325	$ 516,702	$ 20,707	$ 1,487,734
Liabilities:				
Accounts payable and accrued liabilities:				
Securities sold, not yet purchased:				
Equity securities	$ 4,600	$ 55	$	$ 4,655
Municipal debt securities		178		178
Corporate debt securities		9		9
Total liabilities at fair value	$ 4,600	$ 242	$	$ 4,842

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

There were no transfers between any levels of the fair value hierarchy during the periods presented in the tables below. The following tables present the changes in Level 3 assets and liabilities measured on a recurring basis for the three months ended December 31, 2011 and 2010 (dollars in thousands):

	Securities Owned	
	Auction Rate Securities	Money Market and Other Mutual Funds
Balance, September 30, 2011	$ 19,609	$ 1,098

Net losses included in earnings[1]	(121)	
Sales	(1,555)	
Settlements	(10,325)	
Balance, December 31, 2011	$ 7,608	$ 1,098

(1) Net losses on auction rate securities are recorded in other revenues on the Condensed Consolidated Statements of Income and substantially all relate to assets held as of December 31, 2011.

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	Securities Owned	
	Auction Rate Securities	Money Market and Other Mutual Funds
Balance, September 30, 2010	$ 209,288	$ 5,404
Net gains included in earnings[(1)]	379	
Purchases, sales, issuances and settlements, net	(15,144)	(4,434)
Balance, December 31, 2010	$ 194,523	$ 970

(1) Net gains on auction rate securities are recorded in other revenues on the Condensed Consolidated Statements of Income and do not relate to assets held as of December 31, 2010.

There were no nonfinancial assets or liabilities measured at fair value during the three months ended December 31, 2011 and 2010.

Valuation Techniques

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

Level 2 Measurements:

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

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

Level 3 Measurements:

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

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

Fair Value of Senior Notes

As of December 31, 2011, the Company s Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $1.330 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $1.334 billion. As of September 30, 2011, the Company s Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $1.340 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $1.337 billion.

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9. EARNINGS PER SHARE

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

	Three Months Ended December 31,	
	2011	2010
Net income	$ 151,960	$ 145,039
Weighted average shares outstanding - basic	549,746	575,485
Effect of dilutive securities:		
Common stock equivalent shares related to stock-based compensation	5,546	5,758
Weighted average shares outstanding - diluted	555,292	581,243
Earnings per share - basic	$ 0.28	$ 0.25
Earnings per share - diluted	$ 0.27	$ 0.25

10. COMPREHENSIVE INCOME

Comprehensive income is as follows for the periods indicated (dollars in thousands):

	Three Months Ended December 31,	
	2011	2010
Net income	$ 151,960	$ 145,039
Other comprehensive income:		
Net unrealized investment gain	2	
Foreign currency translation adjustment	27	131
Total other comprehensive income	29	131
Comprehensive income	$ 151,989	$ 145,170

11. RELATED PARTY TRANSACTIONS

Transactions with TD and Affiliates

As a result of the acquisition of TD Waterhouse during fiscal 2006, TD became an affiliate of the Company. TD owned approximately 45.1% of the Company s common stock as of December 31, 2011, of which 45% is permitted to be voted under the terms of the Stockholders Agreement among TD, the Company and certain other stockholders. Pursuant to the Stockholders Agreement, TD has the right to designate five of twelve members of the Company s board of directors. The Company transacts business and has extensive relationships with TD and certain of its affiliates. Transactions with TD and its affiliates are discussed and summarized below.

Insured Deposit Account Agreement

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

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The IDA agreement has a term of five years beginning July 1, 2008, and is automatically renewable for successive five-year terms, provided that it may be terminated by any party upon two years prior written notice. The agreement provides that the fee earned on the IDA agreement is calculated based on three primary components: (a) the actual yield earned on investments in place as of July 1, 2008, which were primarily fixed-income securities backed by Canadian government guarantees, (b) the yield on other fixed-rate investments, based on prevailing fixed rates for identical balances and maturities in the interest rate swap market (generally LIBOR-based) at the time such investments were added to the IDA portfolio and (c) floating-rate investments, based on the monthly average rate for 30-day LIBOR. The agreement provides that, from time to time, the Company may request amounts and maturity dates for the other fixed-rate investments (component (b) above) in the IDA portfolio, subject to the approval of the Depository Institutions. As of December 31, 2011, the IDA portfolio was comprised of approximately 1% component (a) investments, 91% component (b) investments and 8% component (c) investments.

In the event the fee computation results in a negative amount, the Company must pay the Depository Institutions the negative amount. This effectively results in the Company guaranteeing the Depository Institutions revenue of 25 basis points on the IDA agreement, plus the reimbursement of FDIC insurance premiums. The fee computation under the IDA agreement is affected by many variables, including the type, duration, credit quality, principal balance and yield of the investment portfolio at the Depository Institutions, the prevailing interest rate environment, the amount of client deposits and the yield paid on client deposits. Because a negative IDA fee computation would arise only if there were extraordinary movements in many of these variables, the maximum potential amount of future payments the Company could be required to make under this arrangement cannot be reasonably estimated. Management believes the potential for the fee calculation to result in a negative amount is remote and the fair value of the guarantee is not material. Accordingly, no contingent liability is carried on the Condensed Consolidated Balance Sheets for the IDA agreement.

In addition, the Company has various other services agreements and transactions with TD and its affiliates. The following tables summarize revenues and expenses resulting from transactions with TD and its affiliates for the periods indicated (dollars in thousands):

		Revenues from TD and Affiliates	
	Statement of Income	Three months ended December 31,	
Description	Classification	2011	2010
Insured Deposit Account Agreement	Insured deposit account fees	$ 205,042	$ 178,471
Mutual Fund Agreements	Investment product fees	1,137	3,622
Referral and Strategic Alliance Agreement	Various	1,380	787
Securities borrowing and lending, net	Net interest revenue	669	893
TD Waterhouse Canada Order Routing Agreement	Other revenues	665	606
TD Waterhouse UK Servicing Agreement	Commissions and transaction fees	107	109
Total revenues		$ 209,000	$ 184,488

		Expenses to TD and Affiliates	
	Statement of Income	Three months ended December 31,	
Description	Classification	2011	2010
Canadian Call Center Services Agreement	Professional services	$ 4,220	$ 4,256
Certificates of Deposit Brokerage Agreement	Advertising	1,211	1,039
Cash Management Services Agreement	Clearing and execution costs	330	203
Referral and Strategic Alliance Agreement	Various	293	606
Total expenses		$ 6,054	$ 6,104

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The following table summarizes the classification and amount of receivables from and payables to TD and affiliates of TD on the Condensed Consolidated Balance Sheets resulting from related party transactions (dollars in thousands):

	December 31, 2011	September 30, 2011
Assets:		
Receivable from brokers, dealers and clearing organizations	$ 440	$ 206
Receivable from affiliates	102,211	92,963
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 70,706	$ 87,771
Payable to affiliates	3,479	3,912

Receivables from and payables to TD affiliates resulting from client cash sweep activity are generally settled in cash the next business day. Receivables from and payables to brokers, dealers and clearing organizations primarily relate to securities borrowing and lending activity and are settled in accordance with the contractual terms. Other receivables from and payables to affiliates of TD are generally settled in cash on a monthly basis.

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12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Senior Notes are jointly and severally and fully and unconditionally guaranteed by TD Ameritrade Online Holdings Corp. (TDAOH), a wholly-owned subsidiary of the Company. Presented below is condensed consolidating financial information for the Company, its guarantor subsidiary and its non-guarantor subsidiaries for the periods indicated.

TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 2011

(Unaudited)

(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
Cash and cash equivalents	$ 206,874	$ 8,128	$ 703,260	$	$ 918,262
Cash and investments segregated in compliance with federal regulations			6,070,405		6,070,405
Receivable from brokers, dealers and clearing organizations			828,752		828,752
Receivable from clients, net			7,666,864		7,666,864
Investments in subsidiaries	5,343,732	5,136,280	546,329	(11,026,341)	
Receivable from affiliates	1,486	3,867	122,167	(25,309)	102,211
Goodwill			2,466,978		2,466,978
Acquired intangible assets, net		145,674	855,383		1,001,057
Other, net	135,481	5,661	911,986	(27,205)	1,025,923
Total assets	$ 5,687,573	$ 5,299,610	$ 20,172,124	$ (11,078,855)	$ 20,080,452
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	$	$	$ 1,599,388	$	$ 1,599,388
Payable to clients			12,082,431		12,082,431
Accounts payable and accrued liabilities	191,005		332,986	(5,625)	518,366
Payable to affiliates	23,792		4,996	(25,309)	3,479
Long-term debt	1,334,446				1,334,446
Other		49,264	376,328	(21,580)	404,012
Total liabilities	1,549,243	49,264	14,396,129	(52,514)	15,942,122
Stockholders equity	4,138,330	5,250,346	5,775,995	(11,026,341)	4,138,330
Total liabilities and stockholders equity	$ 5,687,573	$ 5,299,610	$ 20,172,124	$ (11,078,855)	$ 20,080,452

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2011

(Unaudited)

(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
Cash and cash equivalents	$ 93,469	$ 7,170	$ 931,324	$	$ 1,031,963
Cash and investments segregated in compliance with federal regulations			2,519,249		2,519,249
Receivable from brokers, dealers and clearing organizations			834,469		834,469
Receivable from clients, net			8,059,410		8,059,410
Investments in subsidiaries	5,431,356	5,240,332	555,001	(11,226,689)	
Receivable from affiliates	6,016	3,754	89,352	(6,159)	92,963
Goodwill			2,466,978		2,466,978
Acquired intangible assets, net		145,674	878,678		1,024,352
Other, net	148,759	5,773	973,137	(31,291)	1,096,378
Total assets	$ 5,679,600	$ 5,402,703	$ 17,307,598	$ (11,264,139)	$ 17,125,762
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	$	$	$ 1,709,572	$	$ 1,709,572
Payable to clients			8,979,327		8,979,327
Accounts payable and accrued liabilities	226,883		364,574	(5,737)	585,720
Payable to affiliates	111	38	9,922	(6,159)	3,912
Long-term debt	1,336,789				1,336,789
Other		49,118	371,061	(25,554)	394,625
Total liabilities	1,563,783	49,156	11,434,456	(37,450)	13,009,945
Stockholders equity	4,115,817	5,353,547	5,873,142	(11,226,689)	4,115,817
Total liabilities and stockholders equity	$ 5,679,600	$ 5,402,703	$ 17,307,598	$ (11,264,139)	$ 17,125,762

TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF INCOME

THREE MONTHS ENDED DECEMBER 31, 2011

(Unaudited)

(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
Net revenues	$ 6,455	$	$ 653,387	$ (6,450)	$ 653,392
Operating expenses	5,978	2	425,351	(6,450)	424,881
Operating income (loss)	477	(2)	228,036		228,511
Other expense (income)	7,219		(174)		7,045
Income (loss) before income taxes and equity in income of subsidiaries	(6,742)	(2)	228,210		221,466
Provision for (benefit from) income taxes	(13,338)	(853)	83,697		69,506
Income before equity in income of subsidiaries	6,596	851	144,513		151,960
Equity in income of subsidiaries	145,364	145,948	8,309	(299,621)	
Net income	$ 151,960	$ 146,799	$ 152,822	$ (299,621)	$ 151,960

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF INCOME

THREE MONTHS ENDED DECEMBER 31, 2010

(Unaudited)

(In thousands)

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

TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

THREE MONTHS ENDED DECEMBER 31, 2011

(Unaudited)

(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
Net cash provided by operating activities	$ 19,910	$ 958	$ 34,689	$ 55,557
Cash flows from investing activities:				
Purchase of property and equipment			(28,298)	(28,298)
Other			482	482
Net cash used in investing activities			(27,816)	(27,816)

Cash flows from financing activities:				
Purchase of treasury stock	(114,552)			(114,552)
Payment of cash dividends	(33,038)			(33,038)
Other, net	8,066		(1,950)	6,116
Net cash used in financing activities	(139,524)		(1,950)	(141,474)
Intercompany investing and financing activities, net	233,019		(233,019)	
Effect of exchange rate changes on cash and cash equivalents			32	32
Net increase (decrease) in cash and cash equivalents	113,405	958	(228,064)	(113,701)
Cash and cash equivalents at beginning of period	93,469	7,170	931,324	1,031,963
Cash and cash equivalents at end of period	$ 206,874	$ 8,128	$ 703,260	$ 918,262

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TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

THREE MONTHS ENDED DECEMBER 31, 2010

(Unaudited)

(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
Net cash provided by (used in) operating activities	$ (14,903)	$ 4,885	$ 95,247	$ 85,229
Cash flows from investing activities:				
Purchase of property and equipment			(30,225)	(30,225)
Cash received in sale of business			5,228	5,228
Net cash used in investing activities			(24,997)	(24,997)
Cash flows from financing activities:				
Purchase of treasury stock	(2,034)			(2,034)
Return of prepayment on structured stock repurchase	118,834			118,834
Payment of cash dividends	(28,680)			(28,680)
Other, net	5,352		(1,945)	3,407
Net cash provided by (used in) financing activities	93,472		(1,945)	91,527
Intercompany investing and financing activities, net	(20,000)		20,000	
Effect of exchange rate changes on cash and cash equivalents			132	132
Net increase in cash and cash equivalents	58,569	4,885	88,437	151,891
Cash and cash equivalents at beginning of period	67,033	25,058	649,401	741,492
Cash and cash equivalents at end of period	$ 125,602	$ 29,943	$ 737,838	$ 893,383

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

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto included in the Company s annual report on Form 10-K for the fiscal year ended September 30, 2011, and the Condensed Consolidated Financial Statements and Notes thereto contained in this quarterly report on Form 10-Q.

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, exp

anticipate, plan, estimate, target, project, intend and similar expressions. In particular, forward-looking statements contained in this discus include our expectations regarding: the effect of client trading activity on our results of operations; the effect of changes in interest rates on our net interest spread; our migration of client cash balances into the insured deposit account offering; our effective income tax rate; 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 and other securities industry risks; fluctuations in interest rates; stock market fluctuations and changes in client trading activity; credit risk with clients and counterparties; increased competition; systems failures, delays and capacity constraints; network security risks; liquidity risk; new laws and regulations affecting our business; regulatory and legal matters and uncertainties and the other risks and uncertainties set forth under Item 1A. Risk Factors of the Company s annual report on Form 10-K for the fiscal year ended September 30, 2011. 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, except to the extent required by the federal securities laws.

The preparation of our financial statements requires us to make judgments and estimates that may have a significant impact upon our financial results. Note 1 of our Notes to Consolidated Financial Statements for the fiscal year ended September 30, 2011, contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions.

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We believe that the following areas are particularly subject to management s judgments and estimates and could materially affect our results of operations and financial position: valuation of goodwill and acquired intangible assets; valuation of stock-based compensation; estimates of effective income tax rates, deferred income taxes and related valuation allowances; accruals for contingent liabilities; and valuation of guarantees. These areas are discussed in further detail under the heading Critical Accounting Policies and Estimates in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2011.

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

GLOSSARY OF TERMS

In discussing and analyzing our business, we utilize several metrics and other terms that are defined in a Glossary of Terms that is available on our website at www.amtd.com (in the Investors section under the heading Financial Reports) and is included in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2011.

RESULTS OF OPERATIONS

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

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

Financial Performance Metrics

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

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

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

	Three months ended December 31,			
	2011		2010	
	$	% of Net Revenue	$	% of Net Revenue
EBITDA				
EBITDA	$ 268,792	41.1%	$ 274,814	41.9%
Less:				
Depreciation and amortization	(16,986)	(2.6%)	(16,136)	(2.5%)
Amortization of acquired intangible assets	(23,295)	(3.6%)	(24,591)	(3.7%)
Interest on borrowings	(7,045)	(1.1%)	(10,825)	(1.6%)
Provision for income taxes	(69,506)	(10.6%)	(78,223)	(11.9%)

Net income	$ 151,960	23.3%	$ 145,039	22.1%

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Our EBITDA decreased 2% for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011, due to a slight decrease in net revenues and a slight increase in operating expenses. Detailed analysis of net revenues and operating expenses is presented later in this discussion.

Operating Metrics

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For the three months ended December 31, 2011, asset-based revenues and transaction-based revenues accounted for 55% and 42% 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):

	Three months ended December 31,		Increase/ (Decrease)
	2011	2010	
Avg. interest-earning assets (excluding conduit business)	$ 13,663	$ 12,972	$ 691
Avg. insured deposit account balances	58,755	44,735	14,020
Avg. spread-based balances	$ 72,418	$ 57,707	$ 14,711
Net interest revenue (excluding conduit business)	$ 109.3	$ 115.4	$ (6.1)
Insured deposit account fee revenue	205.0	178.5	26.5
Spread-based revenue	$ 314.3	$ 293.9	$ 20.4
Avg. annualized yield - interest-earning assets (excluding conduit business)	3.13%	3.48%	(0.35%)
Avg. annualized yield - insured deposit account fees	1.37%	1.56%	(0.19%)
Net interest margin (NIM)	1.70%	1.99%	(0.29%)

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

	Interest Revenue (Expense) Three months ended December 31,		Increase/ (Decrease)
	2011	2010	
Segregated cash	$ 0.4	$ 1.1	$ (0.7)
Client margin balances	85.1	92.8	(7.7)
Securities borrowing (excluding conduit business)	24.8	22.3	2.5
Other cash and interest-earning investments	0.4	0.4	
Client credit balances	(0.5)	(0.5)	
Securities lending (excluding conduit business)	(0.9)	(0.7)	(0.2)
Net interest revenue (excluding conduit business)	109.3	115.4	(6.1)
Securities borrowing - conduit business	0.1	0.2	(0.1)
Securities lending - conduit business	(0.1)	(0.1)	
Net interest revenue	$ 109.3	$ 115.5	$ (6.2)

	Average Balance Three months ended December 31,		% Change
	2011	2010	
Segregated cash	$ 4,112	$ 3,266	26%
Client margin balances	7,727	8,121	(5%)
Securities borrowing (excluding conduit business)	387	532	(27%)
Other cash and interest-earning investments	1,437	1,053	36%
Interest-earning assets (excluding conduit business)	13,663	12,972	5%
Securities borrowing - conduit business	184	359	(49%)
Interest-earning assets	$ 13,847	$ 13,331	4%
Client credit balances	$ 8,833	$ 7,970	11%
Securities lending (excluding conduit business)	1,535	1,601	(4%)
Interest-bearing liabilities (excluding conduit business)	10,368	9,571	8%
Securities lending - conduit business	184	359	(49%)
Interest-bearing liabilities	$ 10,552	$ 9,930	6%

	Avg. Annualized Yield (Cost) Three months ended December 31,		Net Yield Increase/ (Decrease)
	2011	2010	
Segregated cash	0.04%	0.13%	(0.09%)

Client margin balances	4.31%	4.47%	(0.16%)
Other cash and interest-earning investments	0.12%	0.15%	(0.03%)
Client credit balances	(0.02%)	(0.03%)	0.01%
Net interest revenue (excluding conduit business)	3.13%	3.48%	(0.35%)
Securities borrowing - conduit business	0.17%	0.28%	(0.11%)
Securities lending - conduit business	(0.08%)	(0.13%)	0.05%
Net interest revenue	3.09%	3.39%	(0.30%)

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

	Fee Revenue Three months ended December 31,		Increase/ (Decrease)
	2011	2010	
Money market mutual fund	$ 1.1	$ 3.6	$ (2.5)
Other investment product fees	42.4	37.1	5.3
Total investment product fees	$ 43.5	$ 40.7	$ 2.8

	Average Balance Three months ended December 31,		% Change
	2011	2010	
Money market mutual fund	$ 5,721	$ 8,837	(35%)
Other fee-based investment balances	72,201	63,908	13%
Total fee-based investment balances	$ 77,922	$ 72,745	7%

	Average Annualized Yield Three months ended December 31,		Increase/ (Decrease)
	2011	2010	
Money market mutual fund	0.08%	0.16%	(0.08%)
Other investment product fees	0.23%	0.23%	0.00%
Total investment product fees	0.22%	0.22%	0.00%

Transaction-Based Revenue Metrics

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

	Three months ended December 31,		% Change
	2011	2010	
Total trades (in millions)	22.97	23.62	(3%)
Average commissions and transaction fees per trade [(1)]	$ 11.90	$ 12.39	(4%)
Average client trades per day	367,479	371,916	(1%)
Average client trades per funded account (annualized)	16.3	17.2	(5%)
Activity rate - funded accounts	6.5%	6.8%	(4%)
Trading days	62.5	63.5	(2%)

(1) Average commissions and transaction fees per trade excludes the TD Waterhouse UK business.

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Client Account and Client Asset Metrics

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

	Three months ended December 31,		%
	2011	**2010**	**Change**
New accounts opened	140,000	164,000	(15%)
Funded accounts (beginning of period)	5,617,000	5,455,000	3%
Funded accounts (end of period)	5,645,000	5,491,000	3%
Percentage change during period	0%	1%	
Client assets (beginning of period, in billions)	$ 378.7	$ 354.8	7%
Client assets (end of period, in billions)	$ 406.3	$ 386.4	5%
Percentage change during period	7%	9%	
Net new assets (in billions)	$ 10.2	$ 9.7	5%
Net new assets annualized growth rate[(1)]	11%	11%	

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

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Condensed Consolidated Statements of Income Data

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

	Three months ended December 31,		%
	2011	2010	Change
Revenues:			
Transaction-based revenues:			
Commissions and transaction fees	$ 273.4	$ 292.7	(7%)
Asset-based revenues:			
Interest revenue	110.8	116.8	(5%)
Brokerage interest expense	(1.4)	(1.3)	9%
Net interest revenue	109.3	115.5	(5%)
Insured deposit account fees	205.0	178.5	15%
Investment product fees	43.5	40.7	7%
Total asset-based revenues	357.9	334.7	7%
Other revenues	22.1	28.8	(23%)
Net revenues	653.4	656.2	(0%)
Operating expenses:			
Employee compensation and benefits	172.8	162.4	6%
Clearing and execution costs	20.0	23.8	(16%)
Communications	28.1	26.9	5%
Occupancy and equipment costs	37.9	35.2	8%
Depreciation and amortization	17.0	16.1	5%
Amortization of acquired intangible assets	23.3	24.6	(5%)
Professional services	45.0	40.3	12%
Advertising	56.6	74.6	(24%)
Other	24.2	18.2	33%
Total operating expenses	424.9	422.1	1%
Operating income	228.5	234.1	(2%)
Other expense:			
Interest on borrowings	7.0	10.8	(35%)
Pre-tax income	221.5	223.3	(1%)
Provision for income taxes	69.5	78.2	(11%)
Net income	$ 152.0	$ 145.0	5%
Other information:			
Effective income tax rate	31.4%	35.0%	
Average debt outstanding	$ 1,259.1	$ 1,273.2	(1%)

Average interest rate incurred on borrowings	2.07%	3.09%

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

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Three-Month Periods Ended December 31, 2011 and 2010

Net Revenues

Commissions and transaction fees decreased 7% to $273.4 million, primarily due to lower average commissions and transaction fees per trade and decreased client trading activity. Average commissions and transaction fees per trade decreased to $11.90 per trade for the first quarter of fiscal 2012 from $12.39 for the first quarter of fiscal 2011, primarily due to (1) decreased trading activity from our long-term investor clients, while our active trader clients, many of whom have negotiated rates, continued to trade, (2) lower average contracts per trade on option trades and (3) increased futures and foreign exchange trades, which earn somewhat lower average commissions and transaction fees per trade and do not generate payment for order flow revenue. Total trades decreased 3%, as average client trades per day decreased 1% to 367,479 for the first quarter of fiscal 2012 compared to 371,916 for the first quarter of fiscal 2011, and there was one less trading day during the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011. Average client trades per funded account (annualized) were 16.3 for the first quarter of fiscal 2012 compared to 17.2 for the first quarter of fiscal 2011.

Net interest revenue decreased 5% to $109.3 million, due primarily to a 5% decrease in average client margin balances, a decrease of 16 basis points in the average yield earned on client margin balances and a decrease of 9 basis points in the average yield earned on segregated cash, partially offset by a $2.2 million increase in net interest revenue from our securities borrowing/lending program for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011.

Insured deposit account fees increased 15% to $205.0 million, due primarily to a 31% increase in average client insured deposit account balances, partially offset by a decrease of 19 basis points in the average yield earned on the insured deposit account assets during the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011. The increased insured deposit account balances are partly due to our success in attracting net new client assets over the past year and partly due to our strategy of migrating client cash held in client credit balances or swept to money market mutual funds to the insured deposit account offering. During the first quarter of fiscal 2012, we moved approximately $3 billion of client cash out of money market mutual funds, consisting of approximately $1 billion that was moved directly to insured deposit accounts and $2 billion that was moved to client credit balances and is expected to be moved to insured deposit accounts later in fiscal 2012. 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.

Investment product fees increased 7% to $43.5 million, primarily due to a 13% increase in average other fee-based investment balances, partially offset by a 35% decrease in average client money market mutual fund balances and a decrease of 8 basis points in the average yield earned on client money market mutual fund balances in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011. The decrease in average money market mutual fund balances resulted primarily from our client cash migration strategy discussed above.

Other revenues decreased 23% to $22.1 million, due primarily to lower client education revenue for the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 and lower software fee revenue related to a legacy thinkorswim product that was discontinued in fiscal 2011.

Operating Expenses

Employee compensation and benefits expense increased 6% to $172.8 million, primarily due to severance costs of approximately $6.9 million related to staff reductions during the first quarter of fiscal 2012 and higher average headcount during the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011. The average number of full-time equivalent employees was 5,494 for the first quarter of fiscal 2012 compared to 5,257 for the first quarter of fiscal 2011.

Clearing and execution costs decreased 16% to $20.0 million primarily due to a decrease in outsourced clearing fees for our thinkorswim business during the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011. We completed the thinkorswim clearing conversion during the fourth quarter of fiscal 2011.

Occupancy and equipment costs increased 8% to $37.9 million primarily due to upgrades to our technology infrastructure and facilities.

Professional services increased 12% to $45.0 million, primarily due to higher usage of consulting and contract services during the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011 in connection with new product development and technology infrastructure upgrades.

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Advertising expense decreased 24% to $56.6 million, primarily due to the timing of more advertising campaigns during the first quarter of fiscal 2011 compared to first quarter of fiscal 2012. Our most recent major advertising campaign was launched in January, after the end of the first quarter of fiscal 2012. We generally adjust our level of advertising spending in relation to stock market activity and other market conditions in an effort to maximize the number of new accounts while minimizing the advertising cost per new account.

Other operating expenses increased 33% to $24.2 million, primarily due to higher bad debt and other client-related trading losses in the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011.

Other Expenses and Income Taxes

Interest on borrowings decreased 35% to $7.0 million, due primarily to lower average interest rates incurred on our debt during the first quarter of fiscal 2012 compared to the first quarter of fiscal 2011. The average interest rate incurred on our debt was 2.07% for the first quarter of fiscal 2012, compared to 3.09% for the first quarter of fiscal 2011. The lower average interest rate incurred on our debt during the first quarter of fiscal 2012 was primarily due to the effect of the fixed-for-variable interest rate swap on our $500 million 5.600% Senior Notes due 2019 entered into on January 7, 2011. We incur variable interest under this interest rate swap at a rate equal to three-month LIBOR plus 2.3745%, or approximately 2.90% as of December 31, 2012.

Our effective income tax rate was 31.4% for the first quarter of fiscal 2012, compared to 35.0% for the first quarter of fiscal 2011. The effective tax rate for the first quarter of fiscal 2012 was lower than normal due to $13.8 million of favorable resolutions of state income tax matters. This favorably impacted the Company s earnings for the three months ended December 31, 2011 by approximately 2.5 cents per share. The effective tax rate for the first quarter of fiscal 2011 was lower than normal due to $4.9 million of favorable resolutions of state income tax matters and $1.4 million of favorable deferred income tax adjustments resulting from state income tax law changes. These items favorably impacted the Company s earnings for the three months ended December 31, 2010 by approximately one cent per share. We expect our effective income tax rate to approximate 38% for the remainder of fiscal 2012. However, we expect to experience some volatility in our quarterly and annual effective income tax rate because current accounting rules for uncertain tax positions require that any change in measurement of a tax position taken in a prior tax year be recognized as a discrete event in the period in which the change occurs.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our liquidity and capital needs primarily through the use of funds generated from operations and from borrowings under our credit agreements. We have also issued common stock and long-term debt to finance mergers and acquisitions and for other corporate purposes. Our liquidity needs during the first quarter of fiscal 2012 were financed primarily from our earnings and cash on hand. We plan to finance our operational capital and liquidity needs during the remainder of fiscal 2012 primarily from our earnings, cash on hand and, if necessary, borrowings on our parent company and broker-dealer credit facilities.

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

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

Liquid Assets

We consider our liquid assets metrics to be important measures of our liquidity and of our ability to fund corporate investing and financing activities. Our liquid assets metrics are considered non-GAAP financial measures. We include the excess capital of our broker-dealer and trust company subsidiaries in the calculation of our liquid assets metrics, rather than simply including broker-dealer and trust company cash and cash equivalents, because capital requirements may limit the amount of

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cash available for dividend from the broker-dealer and trust company subsidiaries to the parent company. Excess capital, as defined below, is generally available for dividend from the broker-dealer and trust company subsidiaries to the parent company. The liquid assets metrics should be considered as supplemental measures of liquidity, rather than as substitutes for cash and cash equivalents.

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

We define liquid assets regulatory threshold as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments, (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 5% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of 120% of the minimum dollar net capital requirement or in excess of 8 1/3% of aggregate indebtedness and (d) Tier 1 capital of our trust company in excess of the minimum dollar requirement. We consider liquid assets regulatory threshold to be a measure that reflects our liquidity that would be available for corporate investing or financing activities under unusual operating circumstances.

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

	Liquid Assets - Management Target			Liquid Assets - Regulatory Threshold		
	Dec. 31, 2011	Sept. 30, 2011	Change	Dec. 31, 2011	Sept. 30, 2011	Change
Cash and cash equivalents	$ 918,262	$ 1,031,963	$ (113,701)	$ 918,262	$ 1,031,963	$ (113,701)
Less: Broker-dealer cash and cash equivalents	(443,679)	(656,206)	212,527	(443,679)	(656,206)	212,527
Trust company cash and cash equivalents	(61,857)	(108,587)	46,730	(61,857)	(108,587)	46,730
Investment advisory cash and cash equivalents	(11,283)	(7,184)	(4,099)	(11,283)	(7,184)	(4,099)
Corporate cash and cash equivalents	401,443	259,986	141,457	401,443	259,986	141,457
Plus: Excess trust company Tier 1 capital				9,025	8,555	470
Excess broker-dealer regulatory net capital	516,532	591,902	(75,370)	1,011,692	1,138,972	(127,280)
Liquid assets	$ 917,975	$ 851,888	$ 66,087	$ 1,422,160	$ 1,407,513	$ 14,647

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

		Liquid Assets	
		Management Target	Regulatory Threshold
Liquid assets as of September 30, 2011		$ 851,888	$ 1,407,513
Plus:	EBITDA(1)	268,792	268,792
	Proceeds from exercise of stock options	359	359
	Other investing activities	482	482
	Reduction in net capital requirement due to decrease in aggregate debits	103,821	51,911
Less:	Income taxes paid	(98,642)	(98,642)
	Interest paid	(7,990)	(7,990)
	Purchase of property and equipment	(28,298)	(28,298)
	Purchase of treasury stock	(114,552)	(114,552)
	Principal payments on capital lease obligations	(1,950)	(1,950)
	Payment of cash dividends	(33,038)	(33,038)
	Other changes in working capital and regulatory net capital	(22,897)	(22,427)
Liquid assets as of December 31, 2011		$ 917,975	$ 1,422,160

(1) See Financial Performance Metrics earlier in this section for a description of EBITDA.

Stock Repurchase Programs

On August 5, 2010, our board of directors authorized the repurchase of up to 30 million shares of our common stock. During the first quarter of fiscal 2012, we completed the August 5, 2010 stock repurchase authorization by repurchasing the remaining 6.7 million shares at a weighted average purchase price of $15.91 per share. From the inception of the stock repurchase authorization through December 31, 2011, we repurchased a total of 30 million shares at a weighted average purchase price of $16.73 per share.

On October 20, 2011, our board of directors authorized the repurchase of up to an additional 30 million shares of our common stock. We did not make any repurchases under the October 20, 2011 stock repurchase authorization during the first quarter of fiscal 2012.

Cash Dividends

Our board of directors declared a $0.06 per share quarterly cash dividend on our common stock during each of the first and second quarters of fiscal 2012. On November 15, 2011, we paid $33.0 million to fund the first quarter dividend and we expect to pay approximately $33 million on February 15, 2012 to fund the second quarter dividend.

CONTRACTUAL OBLIGATIONS

The following item constitutes a material change in our contractual obligations outside the ordinary course of business since September 30, 2011:

Effective November 28, 2011, TD Ameritrade Services Company, Inc., one of our wholly-owned subsidiaries, entered into a Guaranteed Maximum Price Amendment to its construction agreement with Kiewit Building Group, Inc., dated December 1, 2009, to construct our Omaha campus. Under the amendment, the guaranteed maximum price to be paid by the Company increased by $55 million to $197 million to incorporate the interior construction. Completion of the work to be performed under the construction agreement is expected by June 2013.

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OFF-BALANCE SHEET ARRANGEMENTS

We enter into guarantees and other off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients and manage our asset-based revenues. For information on these arrangements, see the following sections under Item 1, Financial Statements Notes to Condensed Consolidated Financial Statements: Guarantees under Note 7 COMMITMENTS AND CONTINGENCIES and Insured Deposit Account Agreement under Note 11 RELATED PARTY TRANSACTIONS. The IDA agreement accounts for a significant percentage of our revenues (31% of our net revenues for the quarter ended December 31, 2011) and enables our clients to invest in an FDIC-insured deposit product without the need for the Company to maintain a bank charter.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Market-related Credit Risk

Two primary sources of credit risk inherent in our business are 1) client credit risk related to client margin lending and leverage and 2) counterparty credit risk related to securities lending and borrowing. We manage risk on client margin lending and leverage by requiring clients to maintain margin collateral in compliance with regulatory and internal guidelines. The risks associated with margin lending and leverage increase during periods of rapid market movements, or in cases where leverage or collateral is concentrated and market movements occur. We monitor required margin levels daily and, pursuant to such guidelines, require our clients to deposit additional collateral, or to reduce positions, when necessary. We continuously monitor client accounts to detect excessive concentration, large orders or positions, patterns of day trading and other activities that indicate increased risk to us. We manage risks associated with our securities lending and borrowing activities by requiring credit approvals for counterparties, by monitoring the market value of securities loaned and collateral values for securities borrowed on a daily basis and requiring additional cash as collateral for securities loaned or return of collateral for securities borrowed when necessary, and by participating in a risk-sharing program offered through the Options Clearing Corporation.

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

Interest Rate Risk

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

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

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

The simulations assume that the asset and liability structure of our Condensed Consolidated Balance Sheet and the insured deposit account arrangement would not be changed as a result of a simulated change in interest rates. The results of the simulations based on our financial position as of December 31, 2011 indicate that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in approximately $87 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 $37 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%.

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Other Market Risks

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the Company s disclosure controls and procedures as of December 31, 2011. Management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2011.

Changes in Internal Control over Financial Reporting

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

Part II OTHER INFORMATION

Item 1. Legal Proceedings

Reserve Fund Matters During September 2008, The Reserve, an independent mutual fund company, announced that the net asset value of the Reserve Yield Plus Fund declined below $1.00 per share. The Yield Plus Fund was not a money market mutual fund, but its stated objective was to maintain a net asset value of $1.00 per share. TD Ameritrade, Inc. s clients continue to hold shares in the Yield Plus Fund (now known as Yield Plus Fund In Liquidation), which is being liquidated. On July 23, 2010, The Reserve announced that through that date it had distributed approximately 94.8% of the Yield Plus Fund assets as of September 15, 2008 and that the Yield Plus Fund had approximately $39.7 million in total remaining assets. The Reserve stated that the fund s Board of Trustees has set aside almost the entire amount of the remaining assets to cover potential claims, fees and expenses. The Company estimates that TD Ameritrade, Inc. clients current positions held in the Reserve Yield Plus Fund amount to approximately 79% of the fund.

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

The Pennsylvania Securities Commission has filed an administrative order against TD Ameritrade, Inc. involving the sale of Yield Plus Fund securities to certain 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.

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

The Company is unable to predict the outcome or the timing of the ultimate resolution of the Pennsylvania action and the Ross lawsuit, or the potential loss, if any, that may result from these unresolved matters. However, management believes the outcome of these pending proceedings is not likely to have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

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

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Item 1A - Risk Factors in our annual report on Form 10-K for the year ended September 30, 2011, which could materially affect our business, financial condition or future results of operations. The risks described in our Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

There have been no material changes from the risk factors disclosed in the Company s Form 10-K for the fiscal year ended September 30, 2011.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
October 1, 2011 - October 31, 2011	4,640,787	$ 15.62	4,441,781	32,302,868
November 1, 2011 - November 30, 2011	2,444,295	$ 16.59	2,302,868	30,000,000
December 1, 2011 - December 31, 2011	94,189	$ 16.01		30,000,000
Total - Three months ended December 31, 2011	7,179,271	$ 15.96	6,744,649	30,000,000

On August 5, 2010, our board of directors authorized the repurchase of up to 30 million shares of our common stock. We disclosed this authorization on August 9, 2010 in our quarterly report on Form 10-Q. During the first quarter of fiscal 2012, the remaining shares authorized under the August 5, 2010 stock repurchase authorization were repurchased and the program was completed.

On October 20, 2011, our board of directors authorized the repurchase of up to an additional 30 million shares of our common stock. We disclosed this authorization on November 18, 2011 in our annual report on Form 10-K.

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During the quarter ended December 31, 2011, 434,622 shares were repurchased from employees for income tax withholding in connection with distributions of stock-based compensation.

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation of TD Ameritrade Holding Corporation, dated January 24, 2006 (incorporated by reference to Exhibit 3.1 of the Company s Form 8-K filed on January 27, 2006)
3.2	Amended and Restated By-Laws of TD Ameritrade Holding Corporation, effective March 9, 2006 (incorporated by reference to Exhibit 3.1 of the Company s Form 8-K filed on March 15, 2006)
4.1	First Supplemental Indenture, dated November 25, 2009, among TD Ameritrade Holding Corporation, TD Ameritrade Online Holdings Corp., as guarantor, and The Bank of New York Mellon Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company s Form 8-K filed on November 25, 2009)
4.2	Form of 2.950% Senior Note due 2012 (included in Exhibit 4.1)
4.3	Form of 4.150% Senior Note due 2014 (included in Exhibit 4.1)
4.4	Form of 5.600% Senior Note due 2019 (included in Exhibit 4.1)
10.1	Amendment No. 4 to Stockholders Agreement among TD Ameritrade Holding Corporation, The Toronto-Dominion Bank and certain other stockholders of TD Ameritrade, dated October 31, 2011
10.2	Guaranteed Maximum Price Amendment between TD Ameritrade Services Company, Inc. and Kiewit Building Group, Inc., effective November 28, 2011 (incorporated by reference to Exhibit 10.1 of the Company s Form 8-K filed on December 2, 2011)
15.1	Awareness Letter of Independent Registered Public Accounting Firm
31.1	Certification of Fredric J. Tomczyk, Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of William J. Gerber, Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Label
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

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Signatures

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

Dated: February 7, 2012

TD Ameritrade Holding Corporation
(Registrant)

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

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