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bjective was to maintain a net asset value of $1.00 per share. TDA Inc. s clients hold shares in the Yield Plus Fund, which is being liquidated by The Reserve.

On July 23, 2010, The Reserve announced that through that date it had distributed approximately 94.8% of the Yield Plus Fund assets as of September 15, 2008 and that the Yield Plus Fund had approximately $39.7 million in total remaining assets. The Reserve stated that the fund s Board of Trustees has set aside almost the entire amount of the remaining assets to cover potential claims, fees and expenses. The Company estimates that TDA Inc. clients current positions held in the Reserve Yield Plus Fund amount to approximately 82% of the fund, which, if valued based on a $1.00 per share net asset value, would total approximately $49.1 million.

The SEC and other regulatory authorities are conducting investigations regarding TDA Inc. s offering of The Reserve Yield Plus Fund to clients. TDA Inc. has received subpoenas and other requests for documents and information from the regulatory authorities. TDA Inc. is cooperating with the investigations and requests. On June 17, 2010, the Pennsylvania Securities Commission filed an administrative order against the Company s subsidiaries, TDA Inc. and Amerivest Investment Management, LLC (Amerivest), involving the sale of Yield Plus Fund securities to 21 Pennsylvania clients. An administrative hearing will be held to determine whether there have been violations of certain provisions of the Pennsylvania Securities Act of 1972 and rules thereunder, and to determine what, if any, administrative sanctions should be imposed. TDA Inc. and Amerivest are 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 Company is unable to predict the outcome or the timing of the ultimate resolution of these matters, or the potential loss, if any, that may result from these matters.

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

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

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

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

Client securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client s account. In connection with these activities, the Company also executes and clears client transactions involving the sale of securities not yet purchased (short sales). Such margin-related transactions may expose the Company to credit risk in the event a client s assets are not sufficient to fully cover losses that the client may incur. In the event the client fails to satisfy its obligations, the Company has the authority to purchase or sell financial instruments in the client s account at prevailing market prices in order to fulfill the client s obligations. The Company seeks to mitigate the risks associated with its client securities activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels throughout each trading day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

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

The Company borrows securities temporarily from other broker-dealers in connection with its broker-dealer business. The Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the market value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return the cash deposited, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company mitigates this risk by requiring credit approvals for counterparties, by monitoring the collateral

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values on a daily basis and requiring collateral to be returned by the counterparties when necessary, and by participating in a risk-sharing program offered through the OCC.
The Company transacts in reverse repurchase agreements in connection with its broker-dealer business. The Company s policy is to take possession or control of securities with a market value in excess of the principal amount loaned, plus accrued interest, in order to collateralize resale agreements. The Company monitors the market value of the underlying securities that collateralize the related receivable on resale agreements on a daily basis and may require additional collateral when deemed appropriate.
As of June 30, 2010, client excess margin securities of approximately $10.5 billion and stock borrowings of approximately $0.6 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned approximately $1.9 billion and repledged approximately $1.2 billion of that collateral as of June 30, 2010.
Guarantees The Company is a member of and provides guarantees to securities clearinghouses and exchanges. Under related agreements, the Company is generally required to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company s liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted to the clearinghouse as collateral. However, the potential for the Company to be required to make payments under these agreements is considered remote. Accordingly, no contingent liability is carried on the Condensed Consolidated Balance Sheets for these guarantees.
See Insured Deposit Account Agreement in Note 11 for a description of a guarantee included in that agreement.
See Auction Rate Securities Matters above in this Note 7 for a description of a guarantee that was related to the ARS settlement.
During September 2008, the net asset value of two money market mutual funds held by some of the Company s clients, the Primary Fund and the International Liquidity Fund, declined below $1.00 per share. These funds are managed by The Reserve, an independent mutual fund company. The Reserve subsequently announced it was suspending redemptions of these funds to effect an orderly liquidation. The Company announced a commitment of up to $55 million to protect its clients positions in these funds. In the event the Company s clients were to receive less than $1.00 per share for these funds upon an orderly liquidation, the Company committed up to $50 million (or $0.03 per share of the fund) for clients in the Primary Fund and up to $5 million for clients in the International Liquidity Fund to mitigate client losses. Based on information from The Reserve and other publicly available information, the Company accrued an estimated fair value of $27.0 million for this obligation as of September 30, 2009, which is included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets. From October 31, 2008 through January 29, 2010, the Primary Fund and the International Liquidity Fund shareholders had received distributions totaling approximately $0.99 per share and $0.86 per share, respectively. In February 2010, the Company fulfilled the guarantee obligation to its clients by paying them for the difference between par value and the distributions to date from these two funds, in exchange for the clients shares in the funds. The Company recorded a gain of $0.9 million based on the final fulfillment of the guarantee. The gain is included in gains on money market funds and client guarantees for the nine months ended June 30, 2010, on the Condensed Consolidated Statements of Income.
Employment Agreements The Company has entered into employment agreements with several of its key executive officers. These employment agreements generally provide for annual base salary and incentive compensation, stock award acceleration and severance payments in the event of termination of employment under certain defined circumstances or changes in control of the Company. Incentive compensation amounts are based on the Company s financial performance and other factors.

8. FAIR VALUE DISCLOSURES

ASC 820-10, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date.
In determining fair value, the Company uses various valuation approaches, including market, income and/or cost approaches. ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of

observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available

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

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

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

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

The following tables present the Company s fair value hierarchy for assets and liabilities measured on a recurring basis as of June 30, 2010 and September 30, 2009 (dollars in thousands):

	As of June 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets:				
Short-term investments:				
Money market mutual funds	$	$	$ 757	$ 757
U.S. government agency debt securities		1,096		1,096
Subtotal Short-term investments		1,096	757	1,853
Securities owned:				
Auction rate securities			243,287	243,287
Money market and other mutual funds			11,857	11,857
Equity securities	351	7		358
Municipal debt securities		1,125		1,125
Corporate debt securities		534		534
Other debt securities		57		57
Subtotal Securities owned	351	1,723	255,144	257,218
Other assets:				
Interest rate swaps[(1)]		27,963		27,963
Total assets at fair value	$ 351	$ 30,782	$ 255,901	$ 287,034
Liabilities:				
Securities sold, not yet purchased:				

Equity securities	$ 4,557	$	$	$ 4,557
Municipal debt securities		65		65
Other debt securities		161		161
Total Securities sold, not yet purchased[2]	$ 4,557	$ 226	$	$ 4,783

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

(2) Amounts are included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets.

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	As of September 30, 2009			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Short-term investments:				
Money market mutual funds	$	$	$ 50,971	$ 50,971
U.S. government agency debt securities		1,100		1,100
Subtotal Short-term investments		1,100	50,971	52,071
Securities owned:				
Auction rate securities			14,579	14,579
Money market and other mutual funds			5,049	5,049
Equity securities	471	23		494
Municipal debt securities		2,049		2,049
Corporate debt securities		702		702
Other debt securities		532		532
Subtotal Securities owned	471	3,306	19,628	23,405
Total assets at fair value	$ 471	$ 4,406	$ 70,599	$ 75,476
Liabilities:				
Securities sold, not yet purchased:				
Equity securities	$ 3,102	$ 2	$	$ 3,104
Money market mutual funds			1	1
Municipal debt securities		118		118
Corporate debt securities		23		23
Total Securities sold, not yet purchased[(1)]	$ 3,102	$ 143	$ 1	$ 3,246

(1) Amounts are included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets.

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There were no transfers between levels of the fair value hierarchy during the periods presented in the tables below. The following tables present the changes in Level 3 assets and liabilities measured on a recurring basis for the three months and nine months ended June 30, 2010 and 2009 (dollars in thousands):

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

	Nine Months Ended June 30, 2010			
	September 30, 2009	Net Gains Included in Earnings	Purchases, Sales, Issuances and Settlements, Net	June 30, 2010
Assets:				
Short-term investments:				
Money market mutual funds	$ 50,971	$ 1,264(1)	$ (51,478)	$ 757
Securities owned:				
Auction rate securities	14,579	2,752(2)	225,956	243,287
Money market and other mutual funds	5,049	8,452(1)	(1,644)	11,857
Subtotal Securities owned	19,628	11,204	224,312	255,144
Total assets at fair value	$ 70,599	$ 12,468	$ 172,834	$ 255,901

(1) Gains on money market and other mutual funds relate to shares of The

Reserve Primary Fund that the Company continues to hold as of June 30, 2010. These gains are included in gains on money market funds and client guarantees on the Condensed Consolidated Statements of Income.

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

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	Three Months Ended June 30, 2009		
	March 31, 2009	Purchases, Sales, Issuances and Settlements, Net	June 30, 2009
Assets:			
Short-term investments:			
Money market mutual funds	$ 77,639	$ (26,668)	$ 50,971
Securities owned:			
Auction rate securities	17,925	2,600	20,525
Money market and other mutual funds	5,848	(954)	4,894
Subtotal Securities owned	23,773	1,646	25,419
Other investments:			
Auction rate securities	8,820		8,820
Total assets at fair value	$ 110,232	$ (25,022)	$ 85,210
Liabilities:			
Securities sold, not yet purchased:			
Money market and other mutual funds	$	$ 2	$ 2

	Nine Months Ended June 30, 2009			
	October 1, 2008	Losses Included in Earnings	Purchases, Sales, Issuances and Settlements, Net	June 30, 2009
Assets:				
Cash and cash equivalents (1)	$ 217,471	$	$ (217,471)	$
Short-term investments:				
Money market mutual funds	368,066	(80)	(317,015)	50,971
Securities owned:				
Auction rate securities	6,925		13,600	20,525
Money market and other mutual funds	46,662		(41,768)	4,894
Subtotal Securities owned	53,587		(28,168)	25,419
Other investments:				

Auction rate securities	10,000		(1,180)	8,820
Total assets at fair value	$ 649,124	$ (80)	$ (563,834)	$ 85,210
Liabilities:				
Securities sold, not yet purchased:				
Money market and other mutual funds	$ 4,636	$	$ (4,634)	$ 2

(1) Represents positions in The Reserve Primary Fund that were classified as cash and cash equivalents as of September 30, 2008.

Effective October 1, 2009, the Company adopted ASC 820-10 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. There were no nonfinancial assets or liabilities measured at fair value during the nine months ended June 30, 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 relies on interest rate yield curves, which are observable for substantially the full term of the contract. The valuation technique underlying the model is widely accepted in the financial services industry and does not involve significant judgment.

Level 3 Measurements:

Money Market 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 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 the yield premium that a market participant would require over otherwise comparable securities to compensate for the illiquidity of the ARS. These inputs require significant management judgment.

Fair Value of Long-Term Debt

As of June 30, 2010, the Company s Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $1.30 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $1.28 billion. As of September 30, 2009, the Company s Term A and Term B credit facilities had an aggregate estimated fair value, based on quoted market prices, of $1.39 billion, compared to the Condensed Consolidated Balance Sheet carrying value of $1.41 billion.

9. EARNINGS PER SHARE

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net income	$ 179,439	$ 170,537	$ 478,229	$ 486,965
Weighted average shares outstanding basic	587,086	563,792	588,176	576,420
Effect of dilutive securities:				
Stock options	3,875	5,986	4,633	6,128
Restricted stock units	2,593	1,887	2,313	1,978
Deferred compensation shares	93	107	99	97
Weighted average shares outstanding diluted	593,647	571,772	595,221	584,623
Earnings per share basic	$ 0.31	$ 0.30	$ 0.81	$ 0.84
Earnings per share diluted	$ 0.30	$ 0.30	$ 0.80	$ 0.83

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10. COMPREHENSIVE INCOME

Comprehensive income is as follows (dollars in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Net income	$ 179,439	$ 170,537	$ 478,229	$ 486,965
Other comprehensive income (loss):				
Net unrealized gains (losses) on investment securities available-for-sale	5	640		(481)
Adjustment for deferred income taxes on net unrealized losses (gains)		(227)		182
Reclassification adjustment for realized losses on investment securities included in net income		2,088		2,088
Reclassification adjustment for deferred income taxes on realized investment losses		(758)		(758)
Foreign currency translation adjustment	(42)	200	(6)	(257)
Total other comprehensive income (loss), net of tax	(37)	1,943	(6)	774
Comprehensive income	$ 179,402	$ 172,480	$ 478,223	$ 487,739

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 45.9% of the Company s common stock as of June 30, 2010, of which 45% is permitted to be voted under the terms of the Stockholders Agreement among TD, the Company and certain other stockholders. Pursuant to the Stockholders Agreement, TD has the right to designate five of twelve members to the Company s board of directors. The Company transacts business and has extensive relationships with TD and certain of its affiliates. A description of significant transactions with TD and its affiliates is set forth below.

Insured Deposit Account Agreement

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

The IDA agreement has a term of five years beginning July 1, 2008, and is automatically renewable for successive five-year terms, provided that it may be terminated by any party upon two years prior written notice. The agreement provides that the fee earned on the IDA agreement is calculated based on three primary components: (a) the actual yield earned on investments in place as of July 1, 2008, which were primarily fixed-income securities backed by Canadian government guarantees, (b) the yield on other fixed-rate investments, based on prevailing fixed rates for identical balances and maturities in the interest rate swap market (generally LIBOR-based) at the time such investments were added to the IDA portfolio and (c) floating-rate investments, based on the monthly average rate for 30-day LIBOR. The agreement provides that, from time to time, the Company may request amounts and maturity dates for the other fixed-rate investments (component (b) above) in the IDA portfolio, subject to the approval of the Depository Institutions. For the month of June 2010, the IDA portfolio was comprised of approximately 10% component (a) investments, 82% 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

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affected by many variables, including the type, duration, credit quality, principal balance and yield of the investment portfolio at the Depository Institutions, the prevailing interest rate environment, the amount of client deposits and the yield paid on client deposits. Because a negative IDA fee computation would arise only if there were extraordinary movements in many of these variables, the maximum potential amount of future payments the Company could be required to make under this arrangement cannot be reasonably estimated. Management believes the potential for the fee calculation to result in a negative amount is remote and the fair value of the guarantee is not material. Accordingly, no contingent liability is carried on the Condensed Consolidated Balance Sheets for the IDA agreement. The Company earned fee income associated with the insured deposit account agreement of $180.1 million and $505.4 million for the three months and nine months ended June 30, 2010, respectively, and $125.1 million and $424.9 million for the three months and nine months ended June 30, 2009, respectively, which is reported as insured deposit account fees on the Condensed Consolidated Statements of Income.

Mutual Fund Agreements

The Company and an affiliate of TD are parties to a sweep fund agreement, transfer agency agreement, shareholder services agreement and a dealer agreement pursuant to which certain mutual funds are made available as money market sweep or direct purchase options to Company clients. The Company performs certain distribution and marketing support services with respect to those funds. In consideration for offering the funds and performing the distribution and marketing support services, an affiliate of TD compensates the Company in accordance with the provisions of the sweep fund agreement. The Company also performs certain services for the applicable fund and earns fees for those services. The agreement may be terminated by any party upon one year s prior written notice and may be terminated by the Company upon 30 days prior written notice under certain circumstances. The Company earned fee income associated with these agreements of $2.3 million and $6.3 million for the three months and nine months ended June 30, 2010, respectively, and $19.0 million and $102.0 million for the three months and nine months ended June 30, 2009, respectively, which is included in investment product fees on the Condensed Consolidated Statements of Income.

Securities Borrowing and Lending

In connection with its brokerage business, the Company engages in securities borrowing and lending with TD Securities, Inc. (TDSI), an affiliate of TD. Receivable from brokers, dealers and clearing organizations includes $0.4 million and $0.6 million of receivables from TDSI as of June 30, 2010 and September 30, 2009, respectively. Payable to brokers, dealers and clearing organizations includes $19.9 million and $34.0 million of payables to TDSI as of June 30, 2010 and September 30, 2009, respectively. The Company earned net interest revenue of $0.4 million and $1.1 million for the three months and nine months ended June 30, 2010, respectively, and earned net interest revenue of $0.2 million and incurred net interest expense of $0.2 million for the three months and nine months ended June 30, 2009, respectively, associated with securities borrowing and lending with TDSI. The transactions with TDSI are subject to similar collateral requirements as transactions with other counterparties.

Referral and Strategic Alliance Agreement

TDA Inc. is a party to a referral and strategic alliance agreement with TD Bank and TD Wealth Management Services, Inc. (TDWMS). Under the agreement, TD Bank will promote TDA Inc. s brokerage services to its clients using a variety of marketing and referral programs and TDWMS referred its existing brokerage account clients to TDA Inc. while TDWMS discontinued its brokerage operations. TD Bank clients that open brokerage accounts at TDA Inc. and TDWMS clients that elected to transfer their accounts to TDA Inc. are considered program clients. TDA Inc. retains a fee for providing brokerage services to the program clients, and the program s net margin is shared equally between TDA Inc. and TD Bank. The Company earned pre-tax income associated with the referral and strategic alliance agreement of $0.3 million and $0.2 million for the three months and nine months ended June 30, 2010, respectively.

Cash Management Services Agreement

Pursuant to a cash management services agreement, TD Bank USA provides cash management services to clients of TDA Inc. In exchange for such services, the Company pays TD Bank USA service-based fees agreed upon by the parties. The Company incurred expense associated with the cash management services agreement of $0.2 million for the three months ended June 30, 2010 and 2009 and $0.6 million for the nine months ended June 30, 2010 and 2009, which is included in clearing and execution costs on the Condensed Consolidated Statements of Income. The cash

management services agreement will continue in effect for as long as the IDA agreement remains in effect, provided that it may be terminated by TDA Inc. without cause upon 60 days prior written notice to TD Bank USA.

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Indemnification Agreement for Phantom Stock Plan Liabilities

Pursuant to an indemnification agreement, the Company agreed to assume TD Waterhouse liabilities related to the payout of awards under The Toronto-Dominion Bank 2002 Phantom Stock Incentive Plan following the completion of the TD Waterhouse acquisition. Under this plan, participants were granted units of stock appreciation rights (SARs) based on TD s common stock that generally vest over four years. Upon exercise, the participant receives cash representing the appreciated value of the units between the grant date and the redemption date. In connection with the payout of awards under the 2002 Phantom Stock Incentive Plan, TD Discount Brokerage Holdings LLC (TDDBH), a wholly-owned subsidiary of TD, agreed to indemnify the Company for any liabilities incurred by the Company in excess of the provision for such liability included on the closing date balance sheet of TD Waterhouse. In addition, in the event that the liability incurred by the Company in connection with the 2002 Phantom Stock Incentive Plan is less than the provision for such liability included on the closing date balance sheet of TD Waterhouse, the Company agreed to pay the difference to TDDBH. There were 25,815 and 43,590 SARs outstanding as of June 30, 2010 and September 30, 2009, respectively, with an approximate value of $1.0 million and $1.6 million, respectively. The indemnification agreement effectively protects the Company against fluctuations in TD s common stock price with respect to the SARs, so there will be no net effect on the Company s results of operations resulting from such fluctuations.

Canadian Call Center Services Agreement

Pursuant to the Canadian call center services agreement, TD receives and services client calls at its London, Ontario site for clients of TDA Inc. After May 1, 2013, either party may terminate this agreement without cause and without penalty by providing 24 months prior written notice. In consideration of the performance by TD of the call center services, the Company pays TD, on a monthly basis, an amount approximately equal to TD s monthly cost. The Company incurred expenses associated with the Canadian call center services agreement of $4.4 million and $13.1 million for the three months and nine months ended June 30, 2010, respectively, and $4.0 million and $11.8 million for the three months and nine months ended June 30, 2009, respectively, which is included in professional services expense on the Condensed Consolidated Statements of Income.

Certificates of Deposit Brokerage Agreement

TDA, Inc. is party to a certificates of deposit brokerage agreement with TD Bank USA, under which TDA Inc. acts as agent for its clients in purchasing certificates of deposit from TD Bank USA. Under the agreement, TD Bank USA pays TDA Inc. a placement fee for each certificate of deposit issued in an amount agreed to by both parties. TDA Inc. has periodically promoted limited time offers to purchase a three-month TD Bank USA certificate of deposit with a premium yield to clients that made a deposit or transferred $25,000 into their TDA Inc. brokerage account during a specified time period. Under these promotions, TDA Inc. reimburses TD Bank USA for the subsidized portion of the premium yield paid to its clients. The Company incurred net costs to TD Bank USA associated with this promotional offer of $0 and $2.3 million for the three months and nine months ended June 30, 2010, respectively, and $0 and $3.3 million for the three months and nine months ended June 30, 2009, which is included in advertising expense on the Condensed Consolidated Statements of Income.

Sale of thinkorswim Canada, Inc. and Trading Platform Hosting and Services Agreement

On June 11, 2009, immediately following the closing of the thinkorswim acquisition, the Company completed the sale of thinkorswim Canada, Inc. (thinkorswim Canada) to TD Waterhouse Canada Inc. (TDW Canada), a wholly-owned subsidiary of TD, for cash equal to the total tangible equity of thinkorswim Canada immediately prior to the closing of the transaction. The Company received gross proceeds from the sale of approximately $1.7 million. The Company did not recognize a gain or loss on the sale of thinkorswim Canada.

In connection with the sale of thinkorswim Canada, the Company and TDW Canada entered into a trading platform hosting and services agreement. The agreement has an initial term of five years beginning June 11, 2009, and will automatically renew for additional periods of two years, unless either party provides notice of non-renewal to the other party at least 90 days prior to the end of the then-current term. Because this agreement represents contingent consideration to be paid for the sale of thinkorswim Canada, the Company recorded a $10.7 million receivable for the fair value of this agreement. Under this agreement, TDW Canada uses the thinkorswim trading platform and TDA Inc. provides the services to support the platform. In consideration for the performance by TDA Inc. of all its obligations

under this agreement, TDW Canada pays TDA Inc., on a monthly basis, a fee based on average client trades per day and transactional revenues. Fees earned under the agreement are recorded as a reduction of the contingent consideration receivable until the receivable is reduced to zero, and thereafter will

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be recorded as fee revenue. As of June 30, 2010 and September 30, 2009, $9.9 million and $10.4 million, respectively, of contingent consideration is included in receivable from affiliates on the Condensed Consolidated Balance Sheets.

Other Related Party Transactions

TD Options LLC, a subsidiary of TD, paid the Company the amount of exchange-sponsored payment for order flow that it received for routing TDA Inc. client orders to the exchanges. The Company earned $0 and $0.5 million of payment for order flow revenues from TD Options LLC for the three months and nine months ended June 30, 2010, respectively, and $1.7 million and $3.3 million for the three months and nine months ended June 30, 2009, respectively, which is included in commissions and transaction fees on the Condensed Consolidated Statements of Income.

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

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

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12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

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

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
ASSETS					
Cash and cash equivalents	$ 13,753	$ 23,402	$ 679,308	$	$ 716,463
Cash and investments segregated in compliance with federal regulations			489,930		489,930
Receivable from brokers, dealers and clearing organizations			782,055		782,055
Receivable from clients, net of allowance for doubtful accounts			7,531,315		7,531,315
Investments in subsidiaries	5,294,922	4,846,608	548,738	(10,690,268)	
Receivable from affiliates	1,000	218,839	77,198	(219,549)	77,488
Goodwill			2,467,223		2,467,223
Acquired intangible assets		145,674	1,003,325		1,148,999
Other	71,123	1,449	671,251	(25,058)	718,765
Total assets	$ 5,380,798	$ 5,235,972	$ 14,250,343	$ (10,934,875)	$ 13,932,238
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	$	$	$ 1,973,822	$	$ 1,973,822
Payable to clients			5,896,317		5,896,317
Accounts payable and accrued liabilities	133,040	15,671	351,990		500,701
Payable to affiliates	139,197	2,867	81,181	(219,549)	3,696
Long-term debt	1,276,672		4,261		1,280,933
Other		41,742	428,196	(25,058)	444,880
Total liabilities	1,548,909	60,280	8,735,767	(244,607)	10,100,349
Stockholders equity	3,831,889	5,175,692	5,514,576	(10,690,268)	3,831,889
Total liabilities and stockholders equity	$ 5,380,798	$ 5,235,972	$ 14,250,343	$ (10,934,875)	$ 13,932,238

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

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

TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF INCOME
THREE MONTHS ENDED JUNE 30, 2010
(Unaudited)
(In thousands)

Guarantor Non-Guarantor

	Parent	Subsidiary	Subsidiaries	Eliminations	Total
Net revenues	$ 4,727	$ 41	$ 691,780	$ (4,744)	$ 691,804
Operating expenses	4,133	(733)	392,887	(4,744)	391,543
Operating income	594	774	298,893		300,261
Other expense	10,953		244		11,197
Income (loss) before income taxes and equity in income of subsidiaries	(10,359)	774	298,649		289,064
Provision for (benefit from) income taxes	(3,348)	281	112,692		109,625
Income (loss) before equity in income of subsidiaries	(7,011)	493	185,957		179,439
Equity in income of subsidiaries	186,450	183,438	2,718	(372,606)	
Net income	$ 179,439	$ 183,931	$ 188,675	$ (372,606)	$ 179,439

TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF INCOME
THREE MONTHS ENDED JUNE 30, 2009
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
Net revenues	$ 6,399	$ 239	$ 613,548	$ (6,418)	$ 613,768
Operating expenses	7,818	37	322,217	(6,418)	323,654
Operating income (loss)	(1,419)	202	291,331		290,114
Other expense	7,999	2,003	366		10,368
Income (loss) before income taxes and equity in income of subsidiaries	(9,418)	(1,801)	290,965		279,746
Provision for (benefit from) income taxes	(1,597)	(660)	111,466		109,209
Income (loss) before equity in income of subsidiaries	(7,821)	(1,141)	179,499		170,537
Equity in income of subsidiaries	178,358	179,335		(357,693)	
Net income	$ 170,537	$ 178,194	$ 179,499	$ (357,693)	$ 170,537

TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF INCOME
NINE MONTHS ENDED JUNE 30, 2010
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
Net revenues	$ 12,077	$ 122	$ 1,951,806	$ (12,149)	$ 1,951,856
Operating expenses	8,642	(1,164)	1,188,399	(12,149)	1,183,728
Operating income	3,435	1,286	763,407		768,128
Other expense	41,234		922		42,156
Income (loss) before income taxes and equity in income of subsidiaries	(37,799)	1,286	762,485		725,972
Provision for (benefit from) income taxes	(33,969)	(4,047)	285,759		247,743
	(3,830)	5,333	476,726		478,229

Income (loss) before equity in income of subsidiaries					
Equity in income of subsidiaries	482,059	465,968	2,718	(950,745)	
Net income	$ 478,229	$ 471,301	$ 479,444	$ (950,745)	$ 478,229

TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF INCOME
NINE MONTHS ENDED JUNE 30, 2009
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
Net revenues	$ 21,878	$ 1,038	$ 1,749,150	$ (22,070)	$ 1,749,996
Operating expenses	20,551	278	912,303	(21,953)	911,179
Operating income	1,327	760	836,847	(117)	838,817
Other expense	31,922	2,120	324	(117)	34,249
Income (loss) before income taxes and equity in income of subsidiaries	(30,595)	(1,360)	836,523		804,568
Provision for (benefit from) income taxes	(5,249)	641	322,211		317,603
Income (loss) before equity in income of subsidiaries	(25,346)	(2,001)	514,312		486,965
Equity in income of subsidiaries	512,311	514,148		(1,026,459)	
Net income	$ 486,965	$ 512,147	$ 514,312	$ (1,026,459)	$ 486,965

TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 2010
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
Net cash provided by (used in) operating activities	$ (125,867)	$ (67)	$ 468,675	$ 342,741
Cash flows from investing activities:				
Purchase of property and equipment			(61,180)	(61,180)
Proceeds from redemption of money market funds	108	49,390	1,980	51,478
Other			2	2
Net cash provided by (used in) investing activities	108	49,390	(59,198)	(9,700)

Cash flows from financing activities:				
Proceeds from issuance of long-term debt	1,248,557			1,248,557
Payment of debt issuance costs	(10,595)			(10,595)
Principal payments on long-term debt	(1,406,500)		(4,138)	(1,410,638)
Purchase of treasury stock	(248,188)			(248,188)
Other	24,937		(11,853)	13,084
Net cash used in financing activities	(391,789)		(15,991)	(407,780)
Intercompany investing and financing activities, net	486,010	(135,000)	(351,010)	
Effect of exchange rate changes on cash and cash equivalents			(9)	(9)
Net increase (decrease) in cash and cash equivalents	(31,538)	(85,677)	42,467	(74,748)
Cash and cash equivalents at beginning of period	45,291	109,079	636,841	791,211
Cash and cash equivalents at end of period	$ 13,753	$ 23,402	$ 679,308	$ 716,463

TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
NINE MONTHS ENDED JUNE 30, 2009
(Unaudited)
(In thousands)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
Net cash provided by (used in) operating activities	$ 139,299	$ (158,682)	$ 914,240	$ 894,857
Cash flows from investing activities:				
Purchase of property and equipment			(45,799)	(45,799)
Cash and cash equivalents acquired in business combinations			86,423	86,423
Cash paid in business combinations	(225,447)	(41,266)		(266,713)
Proceeds from redemption of money market funds	667	177,206	139,142	317,015
Other		2,868	180	3,048
Net cash provided by (used in) investing activities	(224,780)	138,808	179,946	93,974
Cash flows from financing activities:				
Principal payments on long-term debt	(28,125)		(74,000)	(102,125)
Purchase of treasury stock	(465,452)			(465,452)
Other	27,074		(2,263)	24,811
Net cash used in financing activities	(466,503)		(76,263)	(542,766)
Intercompany investing and financing activities, net	560,831	(51,201)	(509,630)	
Effect of exchange rate changes on cash and cash equivalents			(376)	(376)
Net increase (decrease) in cash and cash equivalents	8,847	(71,075)	507,917	445,689
Cash and cash equivalents at beginning of period	989	171,010	502,136	674,135
Cash and cash equivalents at end of period	$ 9,836	$ 99,935	$ 1,010,053	$ 1,119,824

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

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto included in the Company s annual report on Form 10-K for the fiscal year ended September 30, 2009, and the Condensed Consolidated Financial Statements and Notes thereto contained in this quarterly report on Form 10-Q.

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, expect, anticipate, plan, estimate, target, similar expressions. In particular, forward-looking statements contained in this discussion include our expectations regarding: the effect of client trading activity on our results of operations; the effect of changes in interest rates on our net interest spread; average commissions and transaction fees per trade; amounts of commissions and transaction fees, asset-based revenues and other revenues; our migration of client cash balances into the insured deposit account offering; amounts of total operating expenses; our effective income tax rate; our capital and liquidity needs and our plans to finance such needs; and the impact of recently issued accounting pronouncements.

The Company s actual results could differ materially from those anticipated in such forward-looking statements. Important factors that may cause such differences include, but are not limited to: general economic and political conditions; interest rates; stock market fluctuations and changes in client trading activity; increased competition; systems failures and capacity constraints; network security risks; ability to service debt obligations; ability to achieve the benefits of the thinkorswim Group Inc. (thinkorswim) acquisition; regulatory and legal matters and uncertainties and the other risks and uncertainties set forth under Item 1A. Risk Factors of the Company s annual report on Form 10-K for the fiscal year ended September 30, 2009. The forward-looking statements contained in this report speak only as of the date on which the statements were made. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise.

The preparation of our financial statements requires us to make judgments and estimates that may have a significant impact upon our financial results. Note 1 of our Notes to Consolidated Financial Statements for the fiscal year ended September 30,

2009, contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions. We believe that the following areas are particularly subject to management s judgments and estimates and could materially affect our results of operations and financial position: valuation of goodwill and acquired intangible assets; valuation of stock-based compensation; estimates of effective income tax rates, deferred income taxes and related valuation allowances; and valuation of guarantees. These areas are discussed in further detail under the heading Critical Accounting Policies and Estimates in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2009.

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

GLOSSARY OF TERMS

In discussing and analyzing our business, we utilize several metrics and other terms that are defined in a Glossary of Terms that is available on our website at www.amtd.com (in the Investors section under the heading Financial Reports) and is included in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2009. Since the issuance of our Form 10-K, the definition of EBITDA and EBITDA excluding investment gains/losses has been updated and the definition of Expenses excluding advertising has been replaced with Operating expenses excluding advertising. These updated definitions are as follows:

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

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

RESULTS OF OPERATIONS

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

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

Financial Performance Metrics

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

We consider EBITDA an important measure of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA is used as the denominator in the consolidated leverage ratio calculation for covenant purposes under our senior revolving credit facility.

EBITDA eliminates the non-cash effect of tangible asset depreciation and amortization and intangible asset amortization. EBITDA should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

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 June 30,				Nine months ended June 30,			
	2010		2009		2010		2009	
	$	% of Net Revenue	$	% of Net Revenue	$	% of Net Revenue	$	% of Net Revenue
EBITDA								
EBITDA	$ 339,879	49.1%	$ 316,824	51.6%	$ 877,031	44.9%	$ 918,402	52.5%
Less:								
Depreciation and amortization	(14,499)	(2.1%)	(11,162)	(1.8%)	(41,573)	(2.1%)	(33,299)	(1.9%)
Amortization of acquired intangible assets	(25,119)	(3.6%)	(17,551)	(2.9%)	(75,722)	(3.9%)	(48,289)	(2.8%)
Interest on borrowings	(11,197)	(1.6%)	(8,365)	(1.4%)	(33,764)	(1.7%)	(32,246)	(1.8%)
Provision for income taxes	(109,625)	(15.8%)	(109,209)	(17.8%)	(247,743)	(12.7%)	(317,603)	(18.1%)
Net income	$ 179,439	25.9%	$ 170,537	27.8%	$ 478,229	24.5%	$ 486,965	27.8%

Our EBITDA decreased for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009 primarily due to (1) lower net interest margin earned on spread-based balances and investment product fees waived on money market mutual funds due to the near-zero short-term interest rate environment, (2) a 7% decrease in average client trades per day on a pro forma combined basis including results of thinkorswim (thinkorswim was acquired during the third quarter of fiscal 2009), and (3) higher incentive-based compensation related to our success in attracting net new client assets. These factors were partially offset by the favorable revenue impact of an 83% increase in average spread-based balances for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. Detailed analysis of net revenues and expenses is presented later in this discussion.

Operating Metrics

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For the nine months ended June 30, 2010, asset-based revenues and transaction-based revenues accounted for 47% and 48% of our net revenues, respectively. Asset-based revenues consist of (1) net interest revenue, (2) insured deposit account fees and (3) investment product fees. The primary factors driving our asset-based revenues are average balances and average rates. Average balances consist primarily of average client margin balances, average segregated cash balances, average client credit balances, average client insured deposit account balances, average fee-based investment balances and average securities borrowing and lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances. The primary factors driving our transaction-based revenues are total client trades and average commissions and transaction fees per trade. We also consider client account and client asset metrics, although we believe they are generally of less significance to our results of operations for any particular period than our metrics for asset-based and transaction-based revenues.

Asset-Based Revenue Metrics

We calculate the return on our interest-earning assets (excluding conduit-based assets) and our insured deposit account balances using a measure we refer to as net interest margin. Net interest margin is calculated for a given period by dividing the annualized sum of net interest revenue (excluding net interest revenue from conduit-based assets) and insured deposit account fees by average spread-based assets. Spread-based assets consist of client and brokerage-related asset balances, including client margin balances, segregated cash, insured deposit account balances, 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 June 30,		Increase/	Nine months ended June 30,		Increase/
	2010	2009	(Decrease)	2010	2009	(Decrease)
Avg. interest-earning assets (excluding conduit business)	$ 12,565	$ 10,002	$ 2,563	$ 13,692	$ 8,296	$ 5,396
Avg. insured deposit account balances	41,811	22,474	19,337	37,873	19,876	17,997
Avg. spread-based balances	$ 54,376	$ 32,476	$ 21,900	$ 51,565	$ 28,172	$ 23,393
Net interest revenue (excluding conduit business)	$ 111.2	$ 98.2	$ 13.0	$ 310.2	$ 247.1	$ 63.1
Insured deposit account fee revenue	180.1	125.1	55.0	505.4	424.9	80.5
Spread-based revenue	$ 291.3	$ 223.3	$ 68.0	$ 815.6	$ 672.0	$ 143.6
Avg. annualized yield interest-earning assets (excluding conduit business)	3.50%	3.88%	(0.38%)	2.99%	3.93%	(0.94%)
Avg. annualized yield insured deposit account fees	1.70%	2.20%	(0.50%)	1.76%	2.82%	(1.06%)
Net interest margin (NIM)	2.12%	2.72%	(0.60%)	2.09%	3.15%	(1.06%)

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 June 30,		Increase/	Interest Revenue (Expense) Nine months ended June 30,		Increase/
	2010	2009	(Decrease)	2010	2009	(Decrease)
Segregated cash	$ 1.1	$ 1.5	$ (0.4)	$ 5.2	$ 3.8	$ 1.4
Client margin balances	89.1	54.7	34.4	242.1	169.2	72.9
Securities borrowing (excluding conduit business)	21.7	42.9	(21.2)	65.6	76.3	(10.7)
Other cash and interest-earning investments, net	0.3	0.4	(0.1)	0.7	3.3	(2.6)
Client credit balances	(0.6)	(0.7)	0.1	(2.4)	(3.0)	0.6
Securities lending (excluding conduit business)	(0.4)	(0.6)	0.2	(1.0)	(2.5)	1.5
Net interest revenue (excluding conduit business)	111.2	98.2	13.0	310.2	247.1	63.1

Securities borrowing conduit business	0.4	1.5	(1.1)	1.4	10.1	(8.7)
Securities lending conduit business	(0.2)	(1.1)	0.9	(0.8)	(6.3)	5.5
Net interest revenue	$ 111.4	$ 98.6	$ 12.8	$ 310.8	$ 250.9	$ 59.9

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	Average Balance Three months ended June 30,		%	Average Balance Nine months ended June 30,		%
	2010	2009	Change	2010	2009	Change
Segregated cash	$ 3,416	$ 4,159	(18%)	$ 5,266	$ 2,599	103%
Client margin balances	7,531	4,340	74%	6,783	4,240	60%
Securities borrowing (excluding conduit business)	446	583	(23%)	560	381	47%
Other cash and interest-earning investments	1,172	920	27%	1,083	1,076	1%
Interest-earning assets (excluding conduit business)	12,565	10,002	26%	13,692	8,296	65%
Securities borrowing conduit business	472	1,165	(59%)	526	1,400	(62%)
Interest-earning assets	$ 13,037	$ 11,167	17%	$ 14,218	$ 9,696	47%
Client credit balances	$ 7,692	$ 6,129	26%	$ 8,898	$ 4,837	84%
Securities lending (excluding conduit business)	1,752	1,322	33%	1,694	1,185	43%
Interest-bearing liabilities (excluding conduit business)	9,444	7,451	27%	10,592	6,022	76%
Securities lending conduit business	472	1,165	(59%)	526	1,400	(62%)
Interest-bearing liabilities	$ 9,916	$ 8,616	15%	$ 11,118	$ 7,422	50%

	Avg. Annualized Yield (Cost) Three months ended June 30,		Net Yield Increase/ (Decrease)	Avg. Annualized Yield (Cost) Nine months ended June 30,		Net Yield Increase/ (Decrease)
	2010	2009		2010	2009	
Segregated cash	0.13%	0.14%	(0.01%)	0.13%	0.19%	(0.06%)
Client margin balances	4.68%	4.99%	(0.31%)	4.71%	5.26%	(0.55%)
Other cash and interest-earning investments, net	0.09%	0.17%	(0.08%)	0.09%	0.40%	(0.31%)
Client credit balances	(0.03%)	(0.05%)	0.02%	(0.04%)	(0.08%)	0.04%
Net interest revenue (excluding conduit business)	3.50%	3.88%	(0.38%)	2.99%	3.93%	(0.94%)
Securities borrowing conduit business	0.35%	0.52%	(0.17%)	0.34%	0.96%	(0.62%)
Securities lending conduit business	(0.20%)	(0.36%)	0.16%	(0.20%)	(0.59%)	0.39%
Net interest revenue	3.38%	3.49%	(0.11%)	2.88%	3.41%	(0.53%)

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

	Fee Revenue Three months ended June 30,		Increase/ (Decrease)	Fee Revenue Nine months ended June 30,		Increase/ (Decrease)
	2010	2009		2010	2009	
Money market mutual fund	$ 2.3	$ 19.0	$ (16.7)	$ 6.3	$ 102.0	$ (95.7)
Other investment product fees	30.9	20.1	10.8	86.7	54.3	32.4
Total investment product fees	$ 33.2	$ 39.1	$ (5.9)	$ 93.0	$ 156.3	$ (63.3)

	Average Balance Three months ended June 30,		% Change	Average Balance Nine months ended June 30,		% Change
	2010	2009		2010	2009	
Money market mutual fund	$ 9,076	$ 22,736	(60%)	$ 10,181	$ 25,936	(61%)
Other fee-based investment balances	53,298	36,240	47%	49,929	34,303	46%
Total fee-based investment balances	$ 62,374	$ 58,976	6%	$ 60,110	$ 60,239	(0%)

	Average Annualized Yield Three months ended June 30,		Increase/ (Decrease)	Average Annualized Yield Nine months ended June 30,		Increase/ (Decrease)
	2010	2009		2010	2009	
Money market mutual fund	0.10%	0.33%	(0.23%)	0.08%	0.52%	(0.44%)
Other investment product fees	0.23%	0.22%	0.01%	0.23%	0.21%	0.02%
Total investment product fees	0.21%	0.26%	(0.05%)	0.20%	0.34%	(0.14%)

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 June 30,		%	Nine months ended June 30,		%
	2010	2009	Change	2010	2009	Change
Total trades (in millions)	26.05	24.66	6%	73.00	66.99	9%
Average commissions and transaction fees per trade [(1)]	$ 12.79	$ 13.66	(6%)	$ 12.93	$ 13.28	(3%)
Average client trades per day	413,461	391,506	6%	390,369	358,232	9%
Average client trades per account (annualized)	13.2	13.5	(2%)	12.7	12.6	1%
Activity rate total accounts	5.3%	5.4%	(2%)	5.0%	5.0%	0%
Activity rate funded accounts	7.6%	7.6%	0%	7.3%	7.1%	3%
Trading days	63.0	63.0	0%	187.0	187.0	0%

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

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 June 30,		%	Nine months ended June 30,		%
	2010	2009	Change	2010	2009	Change
Total accounts (beginning of period)	7,788,000	7,195,000	8%	7,563,000	6,895,000	10%
New accounts opened	175,000	176,000	(1%)	542,000	586,000	(8%)
Accounts purchased		197,000	(100%)		197,000	(100%)
Accounts closed	(73,000)	(77,000)	(5%)	(215,000)	(187,000)	15%
Total accounts (end of period)	7,890,000	7,491,000	5%	7,890,000	7,491,000	5%
Percentage change during period	1%	4%		4%	9%	
Funded accounts (beginning of period)	5,379,000	5,105,000	5%	5,279,000	4,918,000	7%
Funded accounts (end of period)	5,440,000	5,291,000	3%	5,440,000	5,291,000	3%

Percentage change during period		1%		4%			3%		8%	
Client assets (beginning of period, in billions)	$	341.5	$	224.9	52%	$	302.0	$	278.0	9%
Client assets (end of period, in billions)	$	323.8	$	265.0	22%	$	323.8	$	265.0	22%
Percentage change during period		(5%)		18%			7%		(5%)	
Net new assets (in billions)	$	8.9	$	6.9	29%	$	27.9	$	21.2	32%
Net new assets annualized growth rate[1]		10%		12%	(17%)		12%		10%	20%

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

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

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 June 30,		%	Nine months ended June 30,		%
	2010	2009	Change	2010	2009	Change
Revenues:						
Transaction-based revenues:						
Commissions and transaction fees	$ 333.1	$ 338.5	(2%)	$ 943.7	$ 891.0	6%
Asset-based revenues:						
Interest revenue	112.8	101.2	11%	315.5	264.0	20%
Brokerage interest expense	(1.4)	(2.6)	(45%)	(4.7)	(13.1)	(64%)
Net interest revenue	111.4	98.6	13%	310.8	250.9	24%
Insured deposit account fees	180.1	125.1	44%	505.4	424.9	19%
Investment product fees	33.2	39.1	(15%)	93.0	156.3	(41%)
Total asset-based revenues	324.7	262.8	24%	909.1	832.1	9%
Other revenues	34.1	12.5	173%	99.0	26.9	268%
Net revenues	691.8	613.8	13%	1,951.9	1,750.0	12%
Operating expenses:						
Employee compensation and benefits	156.3	128.2	22%	467.8	366.4	28%
Clearing and execution costs	22.4	16.1	39%	68.4	46.8	46%
Communications	27.0	20.8	30%	76.3	57.4	33%
Occupancy and equipment costs	35.5	30.0	18%	104.2	89.6	16%
Depreciation and amortization	14.5	11.2	30%	41.6	33.3	25%
Amortization of acquired intangible assets	25.1	17.6	43%	75.7	48.3	57%
Professional services	32.0	43.9	(27%)	97.2	93.4	4%
Advertising	51.6	41.4	25%	188.4	141.2	33%
Gains on money market funds and client guarantees	(9.2)		N/A	(11.1)		N/A
Other	36.4	14.5	151%	75.3	34.8	117%
Total operating expenses	391.5	323.7	21%	1,183.7	911.2	30%
Operating income	300.3	290.1	3%	768.1	838.8	(8%)
Other expense:						
Interest on borrowings	11.2	8.4	34%	33.8	32.2	5%
Loss on debt refinancing			N/A	8.4		N/A
Loss on sale of investments		2.0	(100%)		2.0	(100%)

Total other expense	11.2	10.4	8%	42.2	34.2	23%
Pre-tax income	289.1	279.7	3%	726.0	804.6	(10%)
Provision for income taxes	109.6	109.2	0%	247.7	317.6	(22%)
Net income	$ 179.4	$ 170.5	5%	$ 478.2	$ 487.0	(2%)
Other information:						
Effective income tax rate	37.9%	39.0%		34.1%	39.5%	
Average debt outstanding	$ 1,277.9	$ 1,440.5	(11%)	$ 1,312.5	$ 1,445.2	(9%)
Average interest rate incurred on borrowings	3.19%	1.93%		3.08%	2.65%	

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

Three-Month Periods Ended June 30, 2010 and 2009

Net Revenues

Commissions and transaction fees decreased 2% to $333.1 million, primarily due to lower average commissions and transaction fees per trade, substantially offset by higher client trades per day. Average commissions and transaction fees per trade decreased to $12.79 per trade for the third quarter of fiscal 2010 from $13.66 for the third quarter of fiscal 2009, primarily due to lower payment for order flow revenue per trade and the full quarter effect of thinkorswim trading activity, which earns somewhat lower average commissions and transaction fees per trade, during the third quarter of fiscal 2010. We acquired thinkorswim on June 11, 2009; therefore, the third quarter of fiscal 2009 included only 14 trading days of thinkorswim activity. These decreases were partially offset by a higher percentage of option trades and a decrease in promotional trades during the third quarter of fiscal 2010. Average client trades per day increased 6% to 413,461 for the third quarter of fiscal 2010 compared to 391,506 for the third quarter of fiscal 2009 due to the additional trading activity resulting from the thinkorswim acquisition. However, on a pro forma basis combined with thinkorswim, average client trades per day decreased 8% from 450,824 for the third quarter of fiscal 2009. Average client trades per account (annualized) were 13.2 for the third quarter of fiscal 2010 compared to 13.5 for the third quarter of fiscal 2009.

Asset-based revenues, which consist of net interest revenue, insured deposit account fees and investment product fees, increased 24% to $324.7 million during the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009, as described below.

Net interest revenue increased 13% to $111.4 million, due primarily to a 74% increase in average client margin balances, partially offset by a $21.2 million decrease in net interest revenue from our securities borrowing/lending program and a decrease of 31 basis points in the average yield earned on client margin balances for the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009.

Insured deposit account fees increased 44% to $180.1 million, due primarily to an 86% increase in average client insured deposit account balances during the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 and the effect of a $13.3 million (23 basis points) FDIC special regulatory assessment during the third quarter of fiscal 2009. The increased insured deposit account balances are primarily due to our strategy of migrating client cash held in client credit balances or swept to money market mutual funds to the insured deposit account offering beginning in April 2009. We expect our migration strategy to position the Company to earn higher net revenues, as we generally earn a higher yield on insured deposit account balances than on money market mutual fund or client credit balances. The effect of the increased insured deposit account balances was partially offset by a decrease of 73 basis points (excluding the effect of the FDIC special regulatory assessment mentioned above) in the average yield earned on the insured deposit account assets during the third quarter of fiscal 2010.

Investment product fees decreased 15% to $33.2 million, primarily due to a 60% decrease in average money market mutual fund balances and a decrease of 23 basis points in the average yield earned on client money market mutual fund balances, partially offset by a 47% increase in average other fee-based investment balances in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. The decrease in average money market mutual fund balances resulted primarily from our client cash migration strategy discussed above. The decrease in the average yield earned in the third quarter of fiscal 2010 was primarily due to our decision to voluntarily begin waiving fees on certain money market mutual funds during the first quarter of fiscal 2009 in order to prevent our clients yields on such funds from becoming negative. The unfavorable impact of the fee waivers on the average yield earned gradually increased during fiscal 2009.

Other revenues increased to $34.1 million, primarily due to an increase in education revenues as a result of the thinkorswim acquisition.

Operating Expenses

Employee compensation and benefits expense increased 22% to $156.3 million, primarily due to an increase in average headcount resulting from the thinkorswim acquisition and higher incentive-based compensation related to actual Company and individual performance, including our success in attracting net new client assets, in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. The average number of full-time equivalent employees increased to 5,327 for the third quarter of fiscal 2010 compared to 4,709 for the third quarter of fiscal 2009.

Clearing and execution costs increased 39% to $22.4 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition, partially offset by lower client statement processing costs in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009.
Communications expense increased 30% to $27.0 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition, increased telecommunications costs resulting from our migration to a new secondary data center during fiscal 2009 and increased costs for quotes and market information.
Occupancy and equipment costs increased 18% to $35.5 million due to upgrades to our technology infrastructure and facilities and due to the addition of thinkorswim occupancy and equipment costs.
Depreciation and amortization increased 30% to $14.5 million, due primarily to depreciation on recent technology infrastructure upgrades and leasehold improvements and due to depreciation of assets recorded in the thinkorswim acquisition.
Amortization of acquired intangible assets increased 43% to $25.1 million, due to amortization of intangible assets recorded in the thinkorswim acquisition.
Professional services decreased 27% to $32.0 million, primarily due to a $13 million acquisition earn-out payment and a $5 million write-off of software development costs in the third quarter of fiscal 2009, partially offset by higher usage of consulting and contract services during the third quarter of fiscal 2010 in connection with new product development, technology infrastructure upgrades and the integration of thinkorswim.
Advertising expense increased 25% to $51.6 million, primarily due to marketing support for the thinkorswim business. We generally adjust our level of advertising spending in relation to stock market activity and other market conditions in an effort to maximize the number of new accounts while minimizing the advertising cost per new account.
Gains on money market funds and client guarantees consists of a $9.2 million favorable fair market value adjustment to our Reserve Primary Fund holdings, based on updated portfolio holdings data published by The Reserve during the third quarter of fiscal 2010. During July 2010, we received distributions of $8.9 million from the Primary Fund.
Other operating expenses increased 151% to $36.4 million, primarily due to increased litigation, arbitration and regulatory expenses, as well as additional expenses related to the thinkorswim business, including education travel and venue costs, in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009.

Other Expenses and Income Taxes

Interest on borrowings increased 34% to $11.2 million, due primarily to higher average interest rates incurred on our debt, partially offset by a decrease of approximately $163 million in average debt outstanding during the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009. The average interest rate incurred on our debt was 3.19% for the third quarter of fiscal 2010, compared to 1.93% for the third quarter of fiscal 2009, primarily due to the refinancing of our long-term debt on November 25, 2009.
Our effective income tax rate was 37.9% for the third quarter of fiscal 2010, compared to 39.0% for the third quarter of fiscal 2009. The decrease was primarily due to unfavorable income tax adjustments of approximately $1.7 million during the third quarter of fiscal 2009 resulting from state income tax law changes. We expect to experience some volatility in our quarterly and annual effective income tax rate because current accounting rules for uncertain tax positions require that any change in measurement of a tax position taken in a prior tax year be recognized as a discrete event in the period in which it occurs.

Nine-Month Periods Ended June 30, 2010 and 2009

Net Revenues

Commissions and transaction fees increased 6% to $943.7 million, primarily due to additional trading activity resulting from the thinkorswim acquisition in the third quarter of fiscal 2009, partially offset by lower average commissions and transaction fees per trade. Average client trades per day increased 9% to 390,369 for the first nine months of fiscal 2010 compared to 358,232 for the first nine months of fiscal 2009. However, on a pro forma basis combined with thinkorswim, average client trades per day decreased 7% from 421,407 for the first nine months of fiscal 2009. Average client trades per account (annualized) were 12.7 for the first nine months of fiscal 2010 compared to 12.6 for the first nine months of fiscal 2009. Average commissions and transaction fees per trade

decreased to $12.93 per trade for the first nine months of fiscal

2010 from $13.28 for the first nine months of fiscal 2009, primarily due to lower payment for order flow revenue per trade and the effect of thinkorswim during the first nine months of fiscal 2010, which earns somewhat lower average commissions and transaction fees per trade. These decreases were partially offset by a higher percentage of option trades and a decrease in promotional trades during the first nine months of fiscal 2010.

Net interest revenue increased 24% to $310.8 million, due primarily to a 60% increase in average client margin balances, partially offset by a decrease of 55 basis points in the average yield earned on client margin balances and a $12.4 million decrease in net interest revenue from our securities borrowing/lending program for the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009.

Insured deposit account fees increased 19% to $505.4 million, due primarily to a 91% increase in average client insured deposit account balances during the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009 and the effect of a $13.3 million (9 basis points) FDIC special regulatory assessment during the first nine months of fiscal 2009. The increased insured deposit account balances are primarily due to our strategy of migrating client cash held in client credit balances or swept to money market mutual funds to the insured deposit account offering beginning in April 2009. In January 2010, we moved an additional $4.2 billion of client cash held in client credit balances into the insured deposit account offering. The effect of the increased insured deposit account balances was significantly offset by a decrease of 115 basis points (excluding the effect of the FDIC special regulatory assessment mentioned above) in the average yield earned on the insured deposit account assets during the first nine months of fiscal 2010.

Investment product fees decreased 41% to $93.0 million, primarily due to a 61% decrease in average money market mutual fund balances and a decrease of 44 basis points in the average yield earned on client money market mutual fund balances, partially offset by a 46% increase in average other fee-based investment balances in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The decrease in average money market mutual fund balances resulted primarily from our client cash migration strategy discussed above. The decrease in the average yield earned in the first nine months of fiscal 2010 was primarily due to our decision to voluntarily begin waiving fees on certain money market mutual funds during the first quarter of fiscal 2009 in order to prevent our clients yields on such funds from becoming negative. The unfavorable impact of the fee waivers on the average yield earned gradually increased during fiscal 2009.

Other revenues increased to $99.0 million, primarily due to an increase in education revenues as a result of the thinkorswim acquisition.

Operating Expenses

Employee compensation and benefits expense increased 28% to $467.8 million, primarily due to an increase in average headcount resulting from the thinkorswim acquisition and higher incentive-based compensation related to actual Company and individual performance, including our success in attracting net new client assets, in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The average number of full-time equivalent employees increased to 5,292 for the first nine months of fiscal 2010 compared to 4,657 for the first nine months of fiscal 2009.

Clearing and execution costs increased 46% to $68.4 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition, partially offset by lower client statement processing costs in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009.

Communications expense increased 33% to $76.3 million, due primarily to expenses associated with the additional accounts and transaction processing volumes resulting from the thinkorswim acquisition, increased telecommunications costs resulting from our migration to a new secondary data center during fiscal 2009 and increased costs for quotes and market information.

Occupancy and equipment costs increased 16% to $104.2 million due to upgrades to our technology infrastructure and facilities and due to the addition of thinkorswim occupancy and equipment costs.

Depreciation and amortization increased 25% to $41.6 million, due primarily to depreciation on recent technology infrastructure upgrades and leasehold improvements and due to depreciation of assets recorded in the thinkorswim acquisition.

Amortization of acquired intangible assets increased 57% to $75.7 million, due to amortization of intangible assets recorded in the thinkorswim acquisition.

Professional services increased 4% to $97.2 million, primarily due to higher usage of consulting and contract services during the first nine months of fiscal 2010 in connection with new product development, technology infrastructure upgrades and the

integration of thinkorswim. These increases were significantly offset by the effect of a $13 million acquisition earn-out payment and a $5 million write-off of software development costs during the first nine months of fiscal 2009.
Advertising expense increased 33% to $188.4 million, primarily due to marketing support for the thinkorswim business.
Gains on money market funds and client guarantees consists of $9.7 million of favorable fair market value adjustments to our Reserve Primary Fund holdings, based on updated portfolio holdings data published by The Reserve and $1.4 million of gains related to the final fulfillment of our auction rate securities and Primary Fund client guarantees. Our client guarantees are discussed further under Item 1 Financial Statements Notes to Condensed Consolidated Financial Statements: Auction Rate Securities Matters and Guarantees under Note 7 Commitments and Contingencies.
Other operating expenses increased 117% to $75.3 million, primarily due to increased litigation, arbitration and regulatory expenses, as well as additional expenses related to the thinkorswim business, including education travel and venue costs, in the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009.

Other Expenses and Income Taxes

Interest on borrowings increased 5% to $33.8 million, due primarily to higher average interest rates incurred on our debt, partially offset by a decrease of approximately $133 million in average debt outstanding during the first nine months of fiscal 2010 compared to the first nine months of fiscal 2009. The average interest rate incurred on our debt was 3.08% for the first nine months of fiscal 2010, compared to 2.65% for the first nine months of fiscal 2009, primarily due to the refinancing of our long-term debt on November 25, 2009.
Loss on debt refinancing of $8.4 million consists of a charge to write off the unamortized balance of debt issuance costs associated with the Term A and Term B credit facilities under our January 23, 2006 credit agreement. On November 25, 2009, we refinanced our long-term debt by issuing the Senior Notes and used the proceeds from the issuance of the Senior Notes, together with cash on hand, to repay in full the outstanding principal under our January 23, 2006 credit agreement.
Our effective income tax rate was 34.1% for the first nine months of fiscal 2010, compared to 39.5% for the first nine months of fiscal 2009. The effective tax rate for the first nine months of fiscal 2010 was unusually low due to $28.8 million of favorable resolutions of certain federal and state income tax matters during the first nine months of fiscal 2010. These items favorably impacted our earnings for the first nine months of fiscal 2010 by approximately $0.05 per share. The effective tax rate for the first nine months of fiscal 2009 was slightly higher than normal due to unfavorable deferred income tax adjustments of approximately $8.9 million resulting from state income tax law changes and capital loss limitations on certain money market mutual fund holdings. These items unfavorably impacted our earnings for the first nine months of fiscal 2009 by approximately $0.02 per share.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our liquidity and capital needs primarily through the use of funds generated from operations and from borrowings under our credit agreements. We have also issued common stock and long-term debt to finance mergers and acquisitions and for other corporate purposes. Our liquidity needs during the first nine months of fiscal 2010 were financed primarily from our earnings and cash on hand. We plan to finance our operational capital and liquidity needs during the remainder of fiscal 2010 primarily from our earnings, cash on hand and, if necessary, borrowings on our parent company and broker-dealer credit facilities.
On July 20, 2009, our broker-dealer subsidiary, TD AMERITRADE, Inc. (TDA Inc.), entered into settlement agreements with the SEC and other regulatory authorities, in which we agreed to extend an offer to purchase eligible auction rate securities (ARS) from certain current and former account holders. The offer commenced on August 10, 2009. The final phase of the offer expired on March 23, 2010 and TDA Inc. completed the repurchases on March 30, 2010. Through March 30, 2010, TDA Inc. purchased eligible ARS with an aggregate par value of approximately $305 million. ARS are long-term variable rate securities tied to short-term interest rates that are reset through a Dutch auction process. In February 2008, the Dutch auction process failed and holders were no longer able to liquidate their holdings through the auction process. Funds from ARS are not expected to be accessible until one of the following occurs: a successful auction, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities mature. Substantial delays in the sale or redemption of our ARS holdings could adversely affect

our liquidity and require us to borrow on our lines of credit or seek alternative financing. As of June 30, 2010, TDA Inc. held ARS with a fair value of approximately $243 million.

Dividends from our subsidiaries are a source of liquidity for the parent company. Some of our subsidiaries are subject to requirements of the SEC, the Financial Industry Regulatory Authority (FINRA), the Commodity Futures Trading

Commission (CFTC), the National Futures Association (NFA) and other regulators relating to liquidity, capital standards and the use of client funds and securities, which may limit funds available for the payment of dividends to the parent company.

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

Liquid Assets

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

	June 30, 2010	September 30, 2009	Change
Cash and cash equivalents	$ 716,463	$ 791,211	$ (74,748)
Less: Broker-dealer cash and cash equivalents	(510,593)	(473,996)	(36,597)
Trust company cash and cash equivalents	(51,488)	(25,143)	(26,345)
Investment advisory cash and cash equivalents	(26,946)	(18,935)	(8,011)
Corporate cash and cash equivalents	127,436	273,137	(145,701)
Plus: Corporate short-term investments	739	49,496	(48,757)
Excess trust company Tier 1 capital	12,637	4,658	7,979
Excess broker-dealer regulatory net capital	1,016,544	814,836	201,708
Liquid assets	$ 1,157,356	$ 1,142,127	$ 15,229

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

Liquid assets as of September 30, 2009	$ 1,142,127
Plus: Pre-tax income	725,972
Proceeds from exercise of stock options	11,842
Proceeds from the issuance of long-term debt	1,248,557
Other changes in working capital and regulatory net capital	85,344
Less: Income taxes paid	(233,009)
Purchase of property and equipment	(61,180)
Purchase of treasury stock	(248,188)
Principal payments on long-term debt and capital lease obligations	(1,422,491)
Payment of debt issuance costs	(10,595)
Additional net capital requirement due to increase in aggregate debits	(81,023)
Liquid assets as of June 30, 2010	$ 1,157,356

Loan Facilities

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

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

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

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

Interest Rate Swaps We are exposed to changes in the fair value of our fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, on December 30, 2009, we entered into fixed-for-variable interest rate swaps on the 2012 Notes and 2014 Notes for notional amounts of $250 million and $500 million, respectively, with maturity dates matching the respective maturity dates of the 2012 Notes and 2014 Notes. The interest rate swaps effectively

change the fixed-rate interest on the 2012 Notes and 2014 Notes to variable-rate interest. Under the terms of the interest rate swap agreements, we receive semi-annual fixed-rate interest payments based on the same rates applicable to the 2012 Notes and 2014 Notes, and make quarterly variable-rate interest payments based on three-month LIBOR plus (a) 0.9693% for the swap on the 2012 Notes and (b) 1.245% for the swap on the 2014 Notes.

The interest rate swaps are accounted for as fair value hedges and qualify for the shortcut method of accounting. Changes in the payment of interest resulting from the interest rate swaps are recorded as an offset to interest on borrowings on the Condensed Consolidated Statements of Income. Changes in fair value of the interest rate swaps are completely offset by changes in fair value of the related notes, resulting in no effect on net income. For the nine months ended June 30, 2010, we recorded a $28.0 million gain for the change in fair value of the interest rate swaps and an offsetting $28.0 million fair value loss on the hedged fixed-rate debt. The offsetting fair value gains and losses were recorded in interest on borrowings on the Condensed Consolidated Statements of Income.

The interest rate swaps are subject to counterparty credit risk. Credit risk is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold and by entering into credit support agreements. The bilateral credit support agreement related to the interest rate swaps requires daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps. As of June 30, 2010, the interest rate swap counterparty had pledged $30.4 million of collateral to us, in the form of U.S. Treasury securities.

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

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

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

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

Stock Repurchase Programs

On August 11, 2009, our board of directors authorized the repurchase of up to 15 million shares of our common stock. We initiated a stock repurchase program under this authorization during the third quarter of fiscal 2010 and repurchased 14 million shares at a weighted average price of $17.40 per share. During July 2010, we completed the program by repurchasing the

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remaining one million shares at a weighted average price of $15.15 per share. We repurchased a total of 15 million shares under the program at a weighted average purchase price of $17.25 per share.

On August 5, 2010, our board of directors authorized the repurchase of up to an additional 30 million shares of our common stock. No shares have been repurchased under this authorization as of the date of this report.

Contractual Obligations

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

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

Our income taxes payable decreased from $358.6 million as of September 30, 2009 to $191.4 million as of June 30, 2010. Income taxes payable as of June 30, 2010 primarily consists of liabilities for uncertain tax positions and related interest and penalties. The timing of payments, if any, on liabilities for uncertain tax positions cannot be predicted with reasonable accuracy.

Off-Balance Sheet Arrangements

We enter into guarantees and other off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients and manage our asset-based revenues. For information on these arrangements, see the following sections under Item 1, Financial Statements Notes to Condensed Consolidated Financial Statements: Auction Rate Securities Matters and Guarantees under Note 7 COMMITMENTS AND CONTINGENCIES and Insured Deposit Account Agreement under Note 11 RELATED PARTY TRANSACTIONS. The IDA agreement accounts for a significant percentage of our revenues (26% of our net revenues for the nine months ended June 30, 2010) and enables our clients to invest in an FDIC-insured deposit product without the need for the Company to maintain a bank charter.

NEW ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

ASC 805 On October 1, 2009, the Company adopted ASC 805, *Business Combinations*. ASC 805 generally requires an acquirer to recognize the identifiable assets acquired, liabilities assumed, contingent purchase consideration and any noncontrolling interest in the acquiree at fair value on the date of acquisition. It also requires an acquirer to recognize as expense most transaction and restructuring costs as incurred, rather than include such items in the cost of the acquired entity. For the Company, ASC 805 applies prospectively to business combinations for which the acquisition date is on or after October 1, 2009. The adoption of ASC 805 did not have a material impact on the Company s condensed consolidated financial statements.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Credit Risk

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

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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 agreement related to the interest rate swaps requires daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps.

Interest Rate Risk

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

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

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

During fiscal 2009, the Federal Open Market Committee lowered the federal funds rate to between 0% and 0.25%. Due to the near-zero short-term interest rate environment, we have performed a simulation of a hypothetical increase in interest rates. This simulation assumes that the asset and liability structure of 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 result of the simulation based on our financial position as of June 30, 2010 indicates that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in approximately $99 million higher pre-tax income.

Other Market Risks

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the Company s disclosure controls and procedures as of June 30, 2010. Management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2010.

Changes in Internal Control over Financial Reporting

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

Part II OTHER INFORMATION

Item 1. Legal Proceedings

Spam Litigation A purported class action, captioned *Elvey v. TD Ameritrade, Inc.*, was filed on May 31, 2007 in the United States District Court for the Northern District of California. The complaint alleges that there was a breach in TDA Inc. s systems, which allowed access to e-mail addresses and other personal information of account holders, and that as a result

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account holders received unsolicited e-mail from spammers promoting certain stocks and have been subjected to an increased risk of identity theft. The complaint requests unspecified damages and injunctive and other equitable relief. A second lawsuit, captioned *Zigler v. TD Ameritrade, Inc.*, was filed on September 26, 2007, in the same jurisdiction on behalf of a purported nationwide class of account holders. The factual allegations of the complaint and the relief sought are substantially the same as those in the first lawsuit. The cases were consolidated under the caption *In re TD Ameritrade Accountholders Litigation*. The Company hired an independent consultant to investigate whether identity theft occurred as a result of the breach. The consultant conducted four investigations from August 2007 to June 2008 and reported that it found no evidence of identity theft. The parties entered into an agreement to settle the lawsuits on a class basis subject to court approval. The court denied final approval of the proposed settlement on October 23, 2009. The court ruled that the asserted benefits of the settlement to the class were not sufficient to warrant approval and that the proposed settlement was not fair, reasonable and adequate. The parties participated in a mediation on April 7, 2010 and discussed possible terms of a new settlement. The settlement discussions are continuing. The Company is unable to predict the outcome or the timing of the ultimate resolution of this matter, or the eventual loss that may result from this matter.

Auction Rate Securities Matters The SEC and other regulatory authorities conducted investigations regarding the sale of auction rate securities (ARS). On July 20, 2009, TDA Inc. finalized settlements with the SEC and other regulatory authorities, concluding investigations by the regulators into TDA Inc. s offer and sale of ARS. Under these settlement agreements, TDA Inc. commenced a tender offer to purchase, at par, from certain current and former account holders, eligible ARS that were purchased through TDA Inc. on or before February 13, 2008, provided the ARS were not transferred away from the firm prior to January 24, 2006. This offer did not extend to clients who purchased ARS through independent registered investment advisors or through another firm and transferred such securities to TDA Inc. In addition, TDA Inc. offered to make whole any losses sustained by eligible clients who purchased ARS through TDA Inc. on or before February 13, 2008 and sold such securities at a loss prior to July 20, 2009. TDA Inc. offered to reimburse clients whose borrowing costs exceeded the amount they earned in interest or dividends from their eligible ARS at the time they borrowed money from TDA Inc. to satisfy liquidity needs. TDA Inc. agreed to participate in a special arbitration process for the purpose of arbitrating eligible investors consequential damages claims arising from their inability to sell their eligible ARS. No fines were imposed by the regulators under the settlement agreements.

The offer commenced on August 10, 2009. The final phase of the offer expired on March 23, 2010 and TDA Inc. completed the repurchases on March 30, 2010. Through March 30, 2010, TDA Inc. purchased eligible ARS with an aggregate par value of approximately $305 million. The Company accounted for the ARS settlement as a financial guarantee. The Company recorded a charge to earnings of $13.8 million for the estimated fair value of this guarantee during the fourth quarter of fiscal 2009. As of September 30, 2009, a liability of $13.8 million for this guarantee was included in accounts payable and accrued liabilities on the Condensed Consolidated Balance Sheets. There is no liability recorded on the Condensed Consolidated Balance Sheet as of June 30, 2010, due to the completion of the offer. On March 30, 2010, the Company recorded a gain of $0.5 million based on the final fulfillment of the guarantee. The gain is included in gains on money market funds and client guarantees for the nine months ended June 30, 2010, on the Condensed Consolidated Statements of Income. As of June 30, 2010, TDA Inc. held ARS with a fair value of approximately $243 million.

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

On July 23, 2010, The Reserve announced that through that date it had distributed approximately 94.8% of the Yield Plus Fund assets as of September 15, 2008 and that the Yield Plus Fund had approximately $39.7 million in total remaining assets. The Reserve stated that the fund s Board of Trustees has set aside almost the entire amount of the remaining assets to cover potential claims, fees and expenses. The Company estimates that TDA Inc. clients current positions held in the Reserve Yield Plus Fund amount to approximately 82% of the fund, which, if valued based on a $1.00 per share net asset value, would total approximately $49.1 million.

The SEC and other regulatory authorities are conducting investigations regarding TDA Inc. s offering of The Reserve Yield Plus Fund to clients. TDA Inc. has received subpoenas and other requests for documents and information from the regulatory authorities. TDA Inc. is cooperating with the investigations and requests. On June 17, 2010, the Pennsylvania Securities Commission filed an administrative order against the Company s subsidiaries, TDA Inc. and Amerivest Investment Management, LLC (Amerivest), involving the sale of Yield Plus Fund securities to 21 Pennsylvania clients. An administrative hearing will be held to determine whether there have been violations of certain provisions of the Pennsylvania Securities Act of 1972 and rules thereunder, and to determine what, if any, administrative sanctions should be imposed. TDA Inc. and Amerivest are defending the action.

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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 Company is unable to predict the outcome or the timing of the ultimate resolution of these matters, or the potential loss, if any, that may result from these matters.

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

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

Item 1A. Risk Factors

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

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

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
April 1, 2010 - April 30, 2010	2,437	$ 18.94		N/A
May 1, 2010 - May 31, 2010	4,201,292	$ 18.19	4,199,900	10,800,100
June 1, 2010 - June 30, 2010	9,800,045	$ 17.07	9,800,000	1,000,100

Total	Three months ended June 30, 2010	14,003,774	$ 17.41	13,999,900

On August 11, 2009, our board of directors authorized the repurchase of up to 15 million shares of our common stock. We disclosed this authorization on November 13, 2009 in our annual report on Form 10-K. The Company initiated a stock repurchase program under this authorization beginning May 10, 2010. This program was the only stock repurchase program in effect and there were no programs that expired during the third quarter of fiscal 2010.

During the three months ended June 30, 2010, 3,874 shares were repurchased from employees for income tax withholding in connection with restricted stock unit and restricted stock award distributions.

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation of TD AMERITRADE Holding Corporation, dated January 24, 2006 (incorporated by reference to Exhibit 3.1 of the Company s Form 8-K filed on January 27, 2006)
3.2	Amended and Restated By-Laws of TD AMERITRADE Holding Corporation, effective March 9, 2006 (incorporated by reference to Exhibit 3.1 of the Company s Form 8-K filed on March 15, 2006)
4.1	First Supplemental Indenture, dated November 25, 2009, among TD AMERITRADE Holding Corporation, TD AMERITRADE Online Holdings Corp., as guarantor, and The Bank of New York Mellon Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company s Form 8-K filed on November 25, 2009)
4.2	Form of 2.950% Senior Note due 2012 (included in Exhibit 4.1)
4.3	Form of 4.150% Senior Note due 2014 (included in Exhibit 4.1)
4.4	Form of 5.600% Senior Note due 2019 (included in Exhibit 4.1)
15.1	Awareness Letter of Independent Registered Public Accounting Firm
31.1	Certification of Fredric J. Tomczyk, Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of William J. Gerber, Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Label
101.PRE	XBRL Taxonomy Extension Presentation

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Signatures

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

Dated: August 9, 2010

TD AMERITRADE Holding Corporation
(Registrant)

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

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

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