TD AMERITRADE HOLDING CORP
Form 10-Q
May 08, 2007

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

FORM 10-Q

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended March 31, 2007**

OR

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

Commission file number: 0-49992

TD AMERITRADE HOLDING CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

As of April 30, 2007, there were 596,924,226 outstanding shares of the registrant s common stock.

TD AMERITRADE HOLDING CORPORATION

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
TD AMERITRADE Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD AMERITRADE Holding Corporation as of March 31, 2007, and the related condensed consolidated statements of income for the three-month and six-month periods ended March 31, 2007 and 2006 and condensed consolidated statements of cash flows for the six-month periods ended March 31, 2007 and 2006. These financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of TD AMERITRADE Holding Corporation as of September 29, 2006, and the related consolidated statements of income, stockholders equity, and cash flows for the year then ended (not presented herein) and in our report dated November 15, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 29, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/S/ ERNST & YOUNG LLP
Chicago, Illinois
May 8, 2007

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

	March 31, 2007 (Unaudited)	September 29, 2006
ASSETS		
Cash and cash equivalents	$ 547,770	$ 363,650
Short-term investments	37,600	65,275
Cash and investments segregated in compliance with federal regulations	315,075	1,561,910
Receivable from brokers, dealers and clearing organizations	7,007,722	4,566,525
Receivable from clients net of allowance for doubtful accounts	7,564,009	6,970,834
Receivable from affiliates	12,882	19,191
Other receivables	102,789	89,038
Property and equipment net of accumulated depreciation and amortization	73,323	57,346
Goodwill	1,763,688	1,731,718
Acquired intangible assets net of accumulated amortization	1,029,629	1,056,899
Investments in equity securities	7,682	16,536
Other assets	69,747	59,547
Total assets	$ 18,531,916	$ 16,558,469
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 9,285,268	$ 7,022,601
Payable to clients	4,879,897	5,412,981
Accounts payable and accrued liabilities	507,398	371,024
Payable to affiliates	6,233	1,596
Long-term debt	1,690,875	1,703,375
Capital lease obligations	5,341	7,337
Deferred income taxes, net	308,533	309,321
Total liabilities	16,683,545	14,828,235
Stockholders equity:		
Preferred stock, $0.01 par value; 100,000,000 shares authorized, none issued		
Common stock, $0.01 par value; 1,000,000,000 shares authorized; 631,381,860 shares issued; Mar. 31, 2007 597,417,500 shares outstanding; Sept. 29, 2006 607,626,040 shares outstanding	6,314	6,314
Additional paid-in capital	1,599,194	1,591,610
Retained earnings	727,533	440,762
Treasury stock, common, at cost March 31, 2007 33,964,360 shares; September 29, 2006 23,755,820 shares	(485,169)	(312,410)
Deferred compensation	428	662

Accumulated other comprehensive income	71	3,296
Total stockholders equity	1,848,371	1,730,234
Total liabilities and stockholders equity	$ 18,531,916	$ 16,558,469

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
Revenues:				
Transaction-based revenues:				
Commissions and transaction fees	$ 193,268	$ 221,394	$ 385,129	$ 351,193
Asset-based revenues:				
Interest revenue	250,783	254,048	493,632	431,402
Brokerage interest expense	(113,720)	(80,648)	(218,006)	(130,402)
Net interest revenue	137,063	173,400	275,626	301,000
Money market deposit account fees	129,774	45,306	265,055	45,306
Money market and other mutual fund fees	54,517	32,503	106,992	40,164
Total asset-based revenues	321,354	251,209	647,673	386,470
Other revenues	10,140	24,623	27,136	36,824
Net revenues	524,762	497,226	1,059,938	774,487
Expenses:				
Employee compensation and benefits	108,615	111,722	206,745	156,614
Fair value adjustments of compensation-related derivative instruments	136	(986)	(478)	(986)
Clearing and execution costs	22,058	18,984	42,894	24,951
Communications	24,686	17,164	46,755	25,918
Occupancy and equipment costs	17,521	18,148	42,372	33,195
Depreciation and amortization	6,132	5,181	13,163	8,664
Amortization of acquired intangible assets	13,446	11,281	27,270	14,790
Professional services	21,642	30,491	46,734	40,084
Interest on borrowings	30,033	25,796	61,150	26,444
Other	13,065	8,599	27,873	15,400
Advertising	42,800	47,477	82,076	74,041
Fair value adjustments of investment-related derivative instruments				11,703
Total expenses	300,134	293,857	596,554	430,818
Income before other income and income taxes	224,628	203,369	463,384	343,669

Other income:				
Gain on sale of investments	5,102	78,840	5,716	78,840
Pre-tax income	229,730	282,209	469,100	422,509
Provision for income taxes	88,591	109,374	182,329	163,677
Net income	$ 141,139	$ 172,835	$ 286,771	$ 258,832
Earnings per share basic	$ 0.24	$ 0.31	$ 0.48	$ 0.54
Earnings per share diluted	$ 0.23	$ 0.30	$ 0.47	$ 0.53
Weighted average shares outstanding basic	598,828	553,813	600,963	479,377
Weighted average shares outstanding diluted	608,743	566,710	610,950	491,065
Dividends declared per share	$ 0.00	$ 6.00	$ 0.00	$ 6.00

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended	
	March 31, 2007	**March 31, 2006**
Cash flows from operating activities:		
Net income	$ 286,771	$ 258,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,163	8,664
Amortization of acquired intangible assets	27,270	14,790
Deferred income taxes	20,215	26,325
Gain on sale of investments in equity securities	(5,716)	(78,840)
Loss (gain) on disposal of property	515	(426)
Fair value adjustments of derivative instruments	(478)	10,717
Stock-based compensation	9,526	4,197
Other	(2,315)	(2,913)
Changes in operating assets and liabilities:		
Cash and investments segregated in compliance with federal regulations	1,246,835	200,105
Brokerage receivables	(3,034,372)	(657,712)
Receivable from/payable to affiliate, net	10,946	6,214
Other receivables	(13,447)	(34,048)
Proceeds from sale of broker-dealer investments in equity securities	1,625	
Other assets	(8,505)	13,786
Brokerage payables	1,729,583	491,121
Accounts payable and accrued liabilities	86,317	17,320
Net cash provided by operating activities	367,933	278,132
Cash flows from investing activities:		
Purchase of property and equipment	(27,187)	(3,081)
Cash (paid) received in business combinations	(3,307)	580,056
Purchase of short-term investments	(168,750)	(745,875)
Proceeds from sale of short-term investments	196,425	935,694
Proceeds from sale of investments in equity securities available-for-sale	10,237	7,492
Other	(10)	11
Net cash provided by investing activities	7,408	774,297

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)
(In thousands)

	Six Months Ended	
	March 31, 2007	**March 31, 2006**
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$	$ 1,900,000
Payment of debt issuance costs	(1,095)	(20,992)
Principal payments on long-term debt and notes payable	(12,500)	(200,000)
Principal payments on capital lease obligations	(1,996)	(2,039)
Proceeds from exercise of stock options; Six months ended March 31, 2007 436,593 shares; 2006 2,027,048 shares	2,339	12,975
Payment of cash dividend		(2,442,234)
Purchase of treasury stock	(180,068)	(467)
Excess tax benefits on stock-based compensation	2,134	12,520
Net cash used in financing activities	(191,186)	(740,237)
Effect of exchange rate changes on cash and cash equivalents	(35)	154
Net increase in cash and cash equivalents	184,120	312,346
Cash and cash equivalents at beginning of period	363,650	171,064
Cash and cash equivalents at end of period	$ 547,770	$ 483,410
Supplemental cash flow information:		
Interest paid	$ 278,927	$ 142,064
Income taxes paid	$ 64,896	$ 76,185
Tax benefit on exercises and distributions of stock-based compensation	$ 2,165	$ 12,558
Noncash investing and financing activities:		
Issuance of capital lease obligations	$	$ 3,384
Settlement of prepaid variable forward contract liabilities in exchange for investment	$	$ 72,077
Issuance of common stock in acquisition	$	$ 2,123,181

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month and Six-Month Periods Ended March 31, 2007 and 2006
(Unaudited)
(Columnar amounts in thousands, except per share amounts)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of TD AMERITRADE Holding Corporation and its wholly owned subsidiaries (collectively, the Company). Intercompany balances and transactions have been eliminated. On February 27, 2007, the Company s board of directors approved changing the Company s fiscal year-end to September 30. Previously, the Company reported on a fifty-two/fifty-three week fiscal year ending on the last Friday of September. This change is effective for the Company s fiscal year ending September 30, 2007. Because the transition period is less than one month, no transition report will be filed.

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s annual report filed on Form 10-K for the fiscal year ended September 29, 2006.

Reclassification Professional services expense of approximately $6.6 million for the three-month and six-month periods ended March 31, 2006 has been reclassified to clearing and execution costs in the Condensed Consolidated Statements of Income. This reclassification was made in order to conform to the current financial statement presentation.

Recently Issued Accounting Pronouncements:

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 establishes a two-step process for evaluation of tax positions. The first step is recognition, under which the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The enterprise is required to presume the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement, under which a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Therefore, FIN No. 48 will be effective for the Company s fiscal year beginning October 1, 2007. The cumulative effect of adopting FIN No. 48 is required to be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity) for that fiscal year, presented separately. The Company is analyzing the impact of adopting FIN No. 48.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies the definition of fair value and the methods used to measure fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Therefore, SFAS No. 157 will be effective for the Company s fiscal year beginning October 1, 2008. Adoption of SFAS No. 157 is not expected to have a material impact on the Company s consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value at specified election dates, with changes in fair value recognized in earnings at each subsequent reporting period. SFAS

No. 159 is effective for fiscal years beginning after November 15, 2007. Therefore, SFAS No. 159 will be effective for the Company s fiscal year beginning October 1, 2008. Adoption of SFAS No. 159 is not expected to have a material impact on the Company s consolidated financial statements.

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2. GOODWILL AND ACQUIRED INTANGIBLE ASSETS

The Company has recorded goodwill for purchase business combinations to the extent the purchase price of each acquisition exceeded the fair value of the net identifiable tangible and intangible assets of the acquired company. The following table summarizes changes in the carrying amount of goodwill for the six months ended March 31, 2007:

Balance as of September 29, 2006	$ 1,731,718
Purchase accounting adjustments, net of income taxes (1)	32,001
Tax benefit of option exercises (2)	(31)
Balance as of March 31, 2007	$ 1,763,688

(1) Purchase accounting adjustments primarily consist of adjustments to liabilities for exit and involuntary termination costs relating to the acquisition of TD Waterhouse Group, Inc. (TD Waterhouse) from The Toronto-Dominion Bank (TD) on January 24, 2006. The purchase price allocation for the TD Waterhouse acquisition was finalized as of January 24, 2007. Differences between purchase accounting estimates and actual results that arose prior to January 24, 2007 resulted in adjustments to the purchase price allocation. Any such adjustments arising on or after January 24, 2007

are recorded currently in earnings.

(2) Represents the tax benefit of exercises of replacement stock options that were issued in connection with the Datek Online Holdings Corp. (Datek) merger. The tax benefit of an option exercise is recorded as a reduction of goodwill to the extent the Company recorded fair value of the replacement option in the purchase accounting. To the extent any gain realized on an option exercise exceeds the fair value of the replacement option recorded in the purchase accounting, the tax benefit on the excess is recorded as additional paid-in capital.

The Company s acquired intangible assets consist of the following as of March 31, 2007:

	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Client relationships	$ 991,522	$ (107,567)	$ 883,955
Trademark license TD	145,674		145,674
	$ 1,137,196	$ (107,567)	$ 1,029,629

The Company estimates amortization expense on acquired intangible assets outstanding as of March 31, 2007 will be approximately $27.3 million for the remainder of fiscal 2007 and approximately $54.6 million for each of the five succeeding fiscal years.

3. ACQUISITION EXIT LIABILITIES

The following tables summarize activity in the Company s acquisition exit liabilities for the three-month and six-month periods ended March 31, 2007, which are included in accounts payable and accrued liabilities in the Condensed Consolidated Balance Sheets:

	Three Months Ended March 31, 2007				
	Balance at Dec. 31, 2006	Exit Costs Recorded	Utilized	Adjustments	Balance at Mar. 31, 2007
Employee compensation and benefits	$ 30,537	$ 5,840	$ (9,334)	$ (3,035)	$ 24,008
Clearing and execution costs	12,264	(1,612)			10,652
Communications	28	7,500	(5,841)		1,687
Occupancy and equipment costs	25,248	1,824	(1,720)	(332)	25,020
Professional services	2,504	554	(605)		2,453
Total acquisition exit liabilities	$ 70,581	$ 14,106	$ (17,500)	$ (3,367)	$ 63,820

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	Six Months Ended March 31, 2007				
	Balance at Sept. 29, 2006	Exit Costs Recorded	Utilized	Adjustments	Balance at Mar. 31, 2007
Employee compensation and benefits	$ 26,676	$ 20,569	$ (20,202)	$ (3,035)	$ 24,008
Clearing and execution costs	10,073	579			10,652
Communications		7,557	(5,870)		1,687
Occupancy and equipment costs	23,168	5,316	(3,132)	(332)	25,020
Professional services	1,334	2,174	(1,055)		2,453
Total acquisition exit liabilities	$ 61,251	$ 36,195	$ (30,259)	$ (3,367)	$ 63,820

The exit costs recorded during the three- and six-month period ended March 31, 2007 relate to purchase accounting adjustments for the acquisition of TD Waterhouse. Adjustments to purchase accounting estimates arising prior to January 24, 2007 (the one-year anniversary of the TD Waterhouse acquisition) are reflected in the exit costs recorded column as adjustments to the cost of acquiring TD Waterhouse and therefore adjusted the amount of goodwill recorded. Adjustments arising on or after January 24, 2007 are reflected in the adjustments column and were included in the determination of net income for the period.

Acquisition employee compensation liabilities are expected to be paid over contractual periods ending in fiscal 2013. Clearing and execution, communications and professional services contract termination costs are expected to be paid over the course of the TD Waterhouse integration during fiscal 2007. Remaining acquisition occupancy and equipment exit liabilities are expected to be utilized over the related lease periods through fiscal 2016.

4. CREDIT FACILITIES

Effective December 13, 2006, the Company entered into an amendment to its January 23, 2006 credit agreement to allow the Company to repurchase additional shares of its outstanding common stock. The Company paid approximately $1.1 million of additional debt issuance costs to effect the amendment.

5. NET CAPITAL

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

Net capital and net capital requirements for the Company s broker-dealer subsidiaries are summarized in the following table as of the dates indicated:

	March 31, 2007			September 29, 2006		
	Net Capital	Minimum Net Capital Required	Excess Net Capital	Net Capital	Minimum Net Capital Required	Excess Net Capital
TD AMERITRADE Clearing, Inc.	$ 493,687	$ 94,496	$ 399,191	$ 397,034	$ 88,891	$ 308,143
	337,762	79,090	258,672	333,134	77,548	255,586

National Investor Services Corp						
TD AMERITRADE, Inc.	76,175	8,576	67,599	48,932	26,146	22,786
TD Waterhouse Capital Markets, Inc.	1,473	250	1,223	4,397	1,000	3,397
Totals	$ 909,097	$ 182,412	$ 726,685	$ 783,497	$ 193,585	$ 589,912

TD AMERITRADE Clearing, Inc. (formerly known as Ameritrade, Inc.) and National Investor Services Corp. are clearing broker-dealers. TD AMERITRADE, Inc. is an introducing broker-dealer. TD Waterhouse Capital Markets, Inc. was registered as a market-maker in over-the-counter equity securities until January 2007, at which time it registered as an introducing broker-dealer.

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6. EARNINGS PER SHARE

The following is a reconciliation of the numerator and denominator used in the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
Net income	$ 141,139	$ 172,835	$ 286,771	$ 258,832
Weighted average shares outstanding basic	598,828	553,813	600,963	479,377
Effect of dilutive securities:				
Stock options	9,733	12,863	9,803	11,658
Restricted stock units	142	8	141	4
Deferred compensation shares	40	26	43	26
Weighted average shares outstanding diluted	608,743	566,710	610,950	491,065
Earnings per share basic	$ 0.24	$ 0.31	$ 0.48	$ 0.54
Earnings per share diluted	$ 0.23	$ 0.30	$ 0.47	$ 0.53

7. COMMITMENTS AND CONTINGENCIES

Legal The nature of the Company s business subjects it to lawsuits, arbitrations, claims and other legal proceedings. Management cannot predict with certainty the outcome of pending legal proceedings. A substantial adverse judgment or other resolution could have a material adverse effect on the Company s financial condition, results of operations and cash flows. However, in the opinion of management, after consultation with legal counsel, the Company has adequate legal defenses with respect to the 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.

Other Regulatory Matters The Company is in discussions with its regulators about matters raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines 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 of 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. TD has agreed to indemnify the Company for tax obligations, if any, pertaining to activities of TD Waterhouse prior to the acquisition.

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 may extend 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 control the risks associated with its client 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 controls 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 a securities clearinghouse.
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 controls this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis and requiring collateral to be returned by the counterparties when necessary, and by participating in a risk-sharing program offered through a securities clearinghouse.
As of March 31, 2007, client excess margin securities of approximately $10.4 billion and stock borrowings of approximately $6.8 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned or repledged approximately $10.1 billion of that collateral as of March 31, 2007.
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 the 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 transactions.
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. COMPREHENSIVE INCOME

Comprehensive income is as follows:

	Three Months Ended		Six Months Ended	
	March 31, 2007	**March 31, 2006**	**March 31, 2007**	**March 31, 2006**
Net income	$ 141,139	$ 172,835	$ 286,771	$ 258,832
Other comprehensive income (loss):				
Net unrealized gains (losses) on investment securities available-for-sale	(362)	1,596	(373)	14,555
Adjustment for deferred income taxes on net unrealized (gains)/losses	136	(614)	140	(5,603)
Reclassification adjustment for realized gains on investment securities included in net income	(4,338)	(77,475)	(4,702)	(77,475)
Reclassification adjustment for deferred income taxes on realized investment gains	1,627	29,828	1,763	29,828

Amount transferred from cumulative foreign currency translation adjustments due to disposal of Ameritrade Canada, Inc.		(513)		(513)
Foreign currency translation adjustment	17	153	(53)	249
Total other comprehensive loss, net of tax	(2,920)	(47,025)	(3,225)	(38,959)
Comprehensive income	$ 138,219	$ 125,810	$ 283,546	$ 219,873

9. RELATED PARTY TRANSACTIONS

As a result of the acquisition of TD Waterhouse, TD became an affiliate of the Company, owning approximately 40 percent of the Company s voting common stock as of March 31, 2007. Pursuant to the Stockholders Agreement among TD, the

Company and certain other stockholders, 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.

Money Market Deposit Account (MMDA) Agreement

Three broker-dealer subsidiaries of the Company, TD AMERITRADE, Inc. (TDA Inc.), TD AMERITRADE Clearing, Inc. (TDA Clearing) (formerly known as Ameritrade, Inc.) and National Investor Services Corp. (NISC), are party to a money market deposit account agreement with TD Bank USA, N.A. (TD Bank USA) and TD, pursuant to which TD Bank USA makes available to clients of TDA Inc. money market deposit accounts as designated sweep vehicles. TDA Inc. provides marketing and support services with respect to the money market deposit accounts and TDA Clearing and NISC act as agents for clients of TDA Inc. and as recordkeepers for TD Bank USA, in each case with respect to the money market deposit accounts. In exchange for providing these services, TD Bank USA pays TDA Inc., TDA Clearing and NISC collectively a fee based on the yield earned by TD Bank USA on the client MMDA assets, less the actual interest paid to clients, actual interest cost incurred on borrowings, a flat fee to TD Bank USA of 25 basis points and the cost of FDIC insurance premiums. The MMDA agreement has an initial term of two years from January 24, 2006 and is automatically renewable for successive two year terms, provided that following the first anniversary of the agreement, the agreement may be terminated by any party thereto upon one year s prior written notice. The Company earned fee income associated with the money market deposit account agreement of $129.8 million and $265.1 million for the three months and six months ended March 31, 2007, respectively, and $45.3 million for the three months and six months ended March 31, 2006, which is reflected as money market deposit account fees in the Condensed Consolidated Statements of Income.

Mutual Fund Agreements

The Company or certain of its subsidiaries and an affiliate of TD are party to a services 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, and the Company performs marketing support services with respect to those funds. In consideration for offering the funds and performing the marketing support services, the affiliate of TD compensates the Company in accordance with the provisions of the services agreement. The Company also performs certain services for the applicable fund and receives fees for those services. In the event payments under the transfer agency agreement, shareholder services agreement and dealer agreement are less than the minimum compensation called for by the services agreement, the deficit is paid under the services agreement. The services agreement has an initial term of two years from January 24, 2006 and is automatically renewable for successive two year terms (so long as certain related agreements are in effect), provided that following the first anniversary of the agreement, the agreement may be terminated by any party thereto upon one year s prior written notice. The Company may terminate the services agreement upon 120 days notice if it does not earn monthly fees greater than a specified level. The Company earned fee income associated with these agreements of $27.6 million and $53.6 million for the three months and six months ended March 31, 2007, respectively, and $15.4 million for the three months and six months ended March 31, 2006, which is included in money market and other mutual fund fees in the Condensed Consolidated Statements of Income.

Interim Cash Management Services Agreement

Pursuant to an Interim Cash Management Services Agreement, TD Bank USA provides cash management services to clients of TDA Inc. until the earlier of TDA Inc. successfully converting the cash management services to another service provider or TD Bank USA and TDA Inc. entering into a formal cash management services agreement. 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 interim cash management services agreement of $0.9 million and $1.7 million for the three months and six months ended March 31, 2007, respectively, and $0.7 million for the three months and six months ended March 31, 2006, which is included in clearing and execution costs in the Condensed Consolidated Statements of Income.

Bridge Loan and Subordinated Notes

During fiscal 2006, the Company had borrowings under a bridge loan and subordinated notes outstanding with TD and an affiliate of TD, respectively. The Company incurred interest expense associated with these notes for the three

months and six months ended March 31, 2006 of $1.8 million and $0.3 million for the bridge loan and subordinated notes, respectively.

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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 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. At the maturity date, 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 direct 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 97,280 and 244,100 SARs outstanding as of March 31, 2007 and September 29, 2006, respectively, with an approximate value of $3.1 million and $7.8 million as of March 31, 2007 and September 29, 2006, 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.

Restricted Share Units and Related Swap Agreements

The Company assumed TD Waterhouse restricted share unit plan liabilities following the completion of the acquisition of TD Waterhouse. Restricted share units are phantom share units with a value equivalent to the Toronto Stock Exchange closing price of TD common shares on the day before the award issuance. These awards vest and mature on the third or fourth anniversary of the award date at the average of the high and low prices for the 20 trading days preceding the redemption date. The redemption value, after withholdings, is paid in cash. Under these plans, participants are granted phantom share units equivalent to TD s common stock that are cliff vested over three or four years. On the acquisition date of TD Waterhouse, the Company entered into equity swap agreements with an affiliate of TD to offset changes in TD s common stock price. The Company incurred interest expense to the TD affiliate to finance the swap agreements of $0.1 million for the three months and six months ended March 31, 2007 and $0.2 million for the three months ended March 31, 2006. There were 187,983 and 335,980 restricted share units outstanding as of March 31, 2007 and September 29, 2006, respectively, with an approximate value of $11.4 million and $19.9 million as of March 31, 2007 and September 29, 2006, respectively. The Company recorded a loss on fair value adjustments to the equity swap agreements of $0.1 million and a gain of $0.5 million for the three months and six months ended March 31, 2007, respectively, and a gain of $1.0 million for the three months and six months ended March 31, 2006, which are included in fair value adjustments of compensation-related derivative instruments in the Consolidated Statements of Income. Because the swap agreements were not designated for hedge accounting, the fair value adjustments are not recorded in the same category of the Condensed Consolidated Statements of Income as the corresponding compensation expense, which is recorded in the employee compensation and benefits category.

Canadian Call Center Services Agreement

Pursuant to the Canadian Call Center Services Agreement, as amended, TD will continue to receive and service client calls at its London, Ontario site for clients of TDA Inc., until November 30, 2008, unless the agreement is terminated earlier in accordance with its terms. 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 $3.8 million and $7.4 million for the three months and six months ended March 31, 2007, respectively, and $2.1 million for the three months and six months ended March 31, 2006, which is included in professional services expense in the Condensed Consolidated Statements of Income.

Receivables from and Payables to TD

Receivables from and payables to TD and affiliates of TD resulting from the related party transactions described above are included in receivable from affiliate and payable to affiliate, respectively, in the Condensed Consolidated Balance Sheets. Such balances are generally settled in cash on a monthly basis.

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 29, 2006, and the Condensed Consolidated Financial

Statements and Notes thereto contained in this quarterly report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties that could cause actual results to 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, integration associated with the TD Waterhouse acquisition, realization of synergies from the TD Waterhouse acquisition, regulatory and legal matters and uncertainties and the other risks and uncertainties set forth under the heading Risk Factors in Item 1A of the Company s annual report on Form 10-K for the fiscal year ended September 29, 2006. 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.

In particular, forward-looking statements contained in this discussion include our expectations regarding: the amount of annualized pre-tax synergies to be realized from the acquisition of TD Waterhouse; the conversion of legacy TD Waterhouse clearing operations to the legacy Ameritrade clearing platform; incremental operating expenses for growth initiatives; the effect of client trading activity on our results of operations; the effect of changes in interest rates on our net interest spread; the effect of changes in the number of qualified accounts on our results of operations; average commissions and transaction fees per trade; amounts of commissions and transaction fees, net interest revenue, money market deposit account fees and money market and other mutual fund fees; amounts of total expenses; our capital and liquidity needs and our plans to finance such needs; and the impact of recently issued accounting pronouncements.

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 29, 2006, 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 intangible assets; valuation and accounting for derivative financial instruments; valuation of stock-based compensation; and estimates of effective income tax rates, deferred income taxes and valuation allowances. 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 29, 2006.

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 in the Investors section of our website at www.amtd.com and is included in Item 7 of our annual report on Form 10-K for the fiscal year ended September 29, 2006.

BUSINESS COMBINATION

On January 24, 2006, we completed the acquisition of TD Waterhouse Group, Inc. (TD Waterhouse), a Delaware corporation, pursuant to an Agreement of Sale and Purchase, dated June 22, 2005, as amended (the Purchase Agreement), with the Toronto-Dominion Bank (TD). We purchased from TD (the Share Purchase) all of the capital stock of TD Waterhouse in exchange for 196,300,000 shares of Company common stock, and $20,000 in cash. The shares of common stock issued to TD in the Share Purchase represented approximately 32.5 percent of the outstanding shares of the Company after giving effect to the transaction. Our condensed consolidated financial statements include the results of operations for TD Waterhouse beginning January 25, 2006. In addition, on January 24, 2006, we completed the sale of Ameritrade Canada, Inc. to TD for $60 million in cash. The purchase price for the acquisition of TD Waterhouse and the sale price for the sale of Ameritrade Canada were subject to cash adjustments based on the closing date balance sheets of the Company, TD Waterhouse and Ameritrade Canada. On May 5, 2006, we received approximately $45.9 million from TD for the settlement of cash adjustments related to the purchase of TD Waterhouse and the sale of Ameritrade Canada.

Pursuant to the Purchase Agreement, prior to the consummation of the Share Purchase, TD Waterhouse conducted a reorganization in which it transferred its Canadian retail securities brokerage business and TD Bank USA, N.A. (formerly TD Waterhouse Bank, N.A.) to TD such that, at the time of consummation of the Share Purchase, TD Waterhouse retained only its United States retail securities brokerage business. TD Waterhouse also distributed to TD excess capital of TD Waterhouse above certain thresholds prior to the consummation of the Share Purchase. As contemplated in the Purchase Agreement, on January 24, 2006, we commenced payment of a special cash dividend of $6.00 per share in respect of the shares of our common stock outstanding prior to the consummation of the Share Purchase. The total amount of the dividend was approximately $2.4 billion.

At the time of the closing of the TD Waterhouse acquisition, we expected to realize approximately $678 million of annualized pre-tax synergies from the acquisition of TD Waterhouse within 18 months of the closing, consisting of $300 million in revenue opportunities primarily related to our new banking relationship with TD and $378 million in cost savings related to the elimination of duplicate expenditures. We realized the revenue opportunities during fiscal 2006 and we expect to realize the operating cost synergies by the end of fiscal 2007.

The major remaining component of the TD Waterhouse integration is the conversion of the legacy TD Waterhouse clearing operations to the legacy Ameritrade clearing platform, which is scheduled to be completed during the third quarter of fiscal 2007. We expect to realize part of the operating cost synergies resulting from the clearing conversion during the third quarter of fiscal 2007 and the remaining synergies during the fourth quarter of fiscal 2007.

GROWTH INITIATIVES

Our Board of Directors recently approved expending up to $100 million in annualized incremental operating expenses for growth initiatives. Our Chief Executive Officer is authorized to approve initiatives to strengthen our sales, develop new products or enhance the functionality of existing products. The growth initiatives are beginning during the third quarter of fiscal 2007 and are expected to continue through fiscal 2008.

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 were to decline, we expect that it would have a negative impact on our results of operations.

Changes in average balances, especially client margin balances, client credit balances and client MMDA balances, may also significantly impact our results of operations. Changes in interest rates impact our results of operations to a lesser extent because 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, operating margin, EBITDA (earnings before interest, taxes, depreciation and amortization) and EBITDA excluding investment gains are key metrics we use in evaluating our financial performance. Operating margin, EBITDA and EBITDA excluding investment gains are considered non-GAAP financial measures as defined by SEC Regulation G.

We define operating margin as pre-tax income, adjusted to remove advertising expense, non-brokerage investment-related gains and losses and any unusual gains or charges. We consider operating margin an important measure of the financial performance of our ongoing business. Advertising spending is excluded because it is largely at the discretion of the Company, can vary significantly from period to period based on market conditions and generally relates to the acquisition of future revenues through new accounts rather than current revenues from existing accounts. Non-brokerage investment-related gains and losses and unusual gains and charges are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. Operating margin should be considered in addition to, rather than as a substitute for, pre-tax income, net income and earnings per share.

We consider EBITDA and EBITDA excluding investment gains 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 our senior credit facilities. EBITDA eliminates the non-cash effect of tangible asset depreciation and amortization and intangible asset amortization. EBITDA excluding investment gains 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 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 tables set forth operating margin, EBITDA and EBITDA excluding investment gains in dollars and as a percentage of net revenues for the periods indicated, and provide reconciliations to pre-tax income, which is the most

directly comparable GAAP measure (dollars in thousands):

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	Three months ended				Six months ended			
	March 31, 2007		March 31, 2006		March 31, 2007		March 31, 2006	
	$	% of Rev.	$	% of Rev.	$	% of Rev.	$	% of Rev.
Operating Margin								
Operating margin	$ 267,428	51.0%	$ 250,846	50.4%	$ 545,460	51.5%	$ 429,413	55.4%
Less:								
Advertising	(42,800)	(8.2%)	(47,477)	(9.5%)	(82,076)	(7.7%)	(74,041)	(9.6%)
Fair value adjustments of investment- related derivative instruments							(11,703)	(1.5%)
Income before other income and income taxes	224,628	42.8%	203,369	40.9%	463,384	43.7%	343,669	44.4%
Gain on sale of investments	5,102	1.0%	78,840	15.9%	5,716	0.5%	78,840	10.2%
Pre-tax income	$ 229,730	43.8%	$ 282,209	56.8%	$ 469,100	44.3%	$ 422,509	54.6%
EBITDA and EBITDA Excluding Investment Gains								
EBITDA excluding investment gains	$ 274,239	52.3%	$ 245,627	49.4%	$ 564,967	53.3%	$ 393,567	50.8%
Plus: Gain on sale of investment	5,102	1.0%	78,840	15.9%	5,716	0.5%	78,840	10.2%
EBITDA	279,341	53.2%	324,467	65.3%	570,683	53.8%	472,407	61.0%
Less:								
Depreciation and amortization	(6,132)	(1.2%)	(5,181)	(1.0%)	(13,163)	(1.2%)	(8,664)	(1.1%)
Amortization of acquired intangible assets	(13,446)	(2.6%)	(11,281)	(2.3%)	(27,270)	(2.6%)	(14,790)	(1.9%)
Interest on borrowings	(30,033)	(5.7%)	(25,796)	(5.2%)	(61,150)	(5.8%)	(26,444)	(3.4%)
Pre-tax income	$ 229,730	43.8%	$ 282,209	56.8%	$ 469,100	44.3%	$ 422,509	54.6%

The dollar amounts of our pre-tax income, operating margin and EBITDA excluding investment gains increased for the first half of fiscal 2007, compared to the first half of fiscal 2006, primarily due to increased business resulting from the TD Waterhouse acquisition. However, operating margin decreased as a percentage of net revenues for the first half of fiscal 2007 primarily due to the TD Waterhouse acquisition. Total expenses were higher as a percentage of net revenues for the first half of fiscal 2007 due to the effect of operating two back-office clearing platforms following

the TD Waterhouse acquisition, higher interest on borrowings due to the debt issued to fund the special cash dividend and higher amortization of intangible assets due to the value assigned to the TD Waterhouse client relationships. Pre-tax income decreased as a percentage of net revenues for the first half of fiscal 2007 primarily due to the effect of a $78.8 million gain on the sale of our investment in Knight Capital Group, Inc. during the first half of fiscal 2006. More detailed analysis of net revenues and expenses is presented later in this discussion.

Operating Metrics

Our largest sources of revenues are (1) asset-based revenues and (2) transaction-based revenues. For the three months ended March 31, 2007, asset-based revenues and transaction-based revenues accounted for 61 percent and 37 percent of our net revenues, respectively. Asset-based revenues consist of (1) net interest revenue, (2) money market deposit account (MMDA) fees and (3) money market and other mutual fund 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 MMDA 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 asset-based revenue metrics and trading activity metrics.

Asset-Based Revenue Metrics

We calculate the return on our interest-earning assets and our MMDA 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 and MMDA fees by average investable assets. Investable assets consist of client and brokerage-related asset balances, including client margin balances, segregated cash, MMDA balances, deposits paid on securities borrowing and other free cash and short-term investment balances. The following table sets forth net interest margin and average investable assets (dollar amounts in millions):

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	Three months ended			Six months ended		
	Mar. 31, 2007	Mar. 31, 2006	Inc. (Dec.)	Mar. 31, 2007	Mar. 31, 2006	Inc. (Dec.)
Average interest-earning assets	$ 14,428	$ 18,202	$ (3,774)	$ 14,023	$ 16,359	$ (2,336)
Average money market deposit account balances	14,758	6,548	8,210	14,571	3,130	11,441
Average investable assets	$ 29,186	$ 24,750	$ 4,436	$ 28,594	$ 19,489	$ 9,105
Net interest revenue	$ 137.1	$ 173.4	$ (36.3)	$ 275.6	$ 301.0	$ (25.4)
Money market deposit account fee revenue	129.8	45.3	84.5	265.1	45.3	219.8
Net revenue earned on investable assets	$ 266.9	$ 218.7	$ 48.2	$ 540.7	$ 346.3	$ 194.4
Net interest margin (NIM)	3.66%	3.53%	0.13%	3.72%	3.51%	0.21%

The following tables set forth key metrics that we use in analyzing net interest revenue, which is a component of net interest margin (dollar amounts in millions):

	Interest Revenue (Expense) Three months ended			Interest Revenue (Expense) Six months ended		
	Mar. 31, 2007	Mar. 31, 2006	Inc. (Dec.)	Mar. 31, 2007	Mar. 31, 2006	Inc. (Dec.)
Segregated cash	$ 5.7	$ 79.6	$ (73.9)	$ 18.1	$ 150.3	$ (132.2)
Client margin balances	152.4	126.2	26.2	303.4	196.3	107.1
Securities borrowing	85.5	41.4	44.1	159.3	73.9	85.4
Other free cash and short-term investments	6.8	6.3	0.5	12.0	10.1	1.9
Client credit balances	(12.7)	(25.3)	12.6	(26.6)	(44.0)	17.4
Securities lending	(100.6)	(54.8)	(45.8)	(190.6)	(85.6)	(105.0)
Net interest revenue	$ 137.1	$ 173.4	$ (36.3)	$ 275.6	$ 301.0	$ (25.4)

	Average Balance Three months ended		%	Average Balance Six months ended		%
	Mar. 31, 2007	Mar. 31, 2006	Change	Mar. 31, 2007	Mar. 31, 2006	Change
Segregated cash	$ 439	$ 7,612	(94%)	$ 687	$ 7,463	(91%)

Client margin balances	7,551	6,845	10%	7,398	5,269	40%
Securities borrowing	5,886	3,254	81%	5,477	3,171	73%
Other free cash and short-term investments	552	491	12%	461	456	1%
Interest-earning assets	$ 14,428	$ 18,202	(21%)	$ 14,023	$ 16,359	(14%)
Client credit balances	$ 3,348	$ 10,247	(67%)	$ 3,394	$ 9,689	(65%)
Securities lending	8,356	5,811	44%	7,855	4,849	62%
Interest-bearing liabilities	$ 11,704	$ 16,058	(27%)	$ 11,249	$ 14,538	(23%)

	Average Yield (Cost) Three months ended		**Net Yield**	**Average Yield (Cost) Six months ended**		**Net Yield**
	Mar. 31, 2007	**Mar. 31, 2006**	**Inc. (Dec.)**	**Mar. 31, 2007**	**Mar. 31, 2006**	**Inc. (Dec.)**
Segregated cash	5.21%	4.18%	1.03%	5.18%	3.98%	1.20%
Client margin balances	8.08%	7.37%	0.71%	8.07%	7.37%	0.70%
Securities borrowing	5.81%	5.08%	0.73%	5.72%	4.61%	1.11%
Other free cash and short-term investments	4.88%	5.20%	(0.32%)	5.13%	4.40%	0.73%
Client credit balances	(1.52%)	(0.99%)	(0.53%)	(1.54%)	(0.90%)	(0.64%)
Securities lending	(4.82%)	(3.77%)	(1.05%)	(4.77%)	(3.49%)	(1.28%)
Net interest revenue	3.80%	3.81%	(0.01%)	3.87%	3.64%	0.23%

The following tables set forth key metrics that we use in analyzing other asset-based revenues (dollar amounts in millions):

	Fee Revenue Three months ended			**Fee Revenue Six months ended**		
	Mar. 31, 2007	**Mar. 31, 2006**	**Inc./(Dec.)**	**Mar. 31, 2007**	**Mar. 31, 2006**	**Inc./(Dec.)**
Money market deposit account	$129.8	$ 45.3	$84.5	$265.1	$ 45.3	$219.8
Money market mutual fund	$ 38.8	$ 23.1	$15.7	$ 76.1	$ 29.6	$ 46.5
Other mutual fund	$ 15.7	$ 9.4	$ 6.3	$ 30.9	$ 10.6	$ 20.3

	Average Balance Three months ended		**%**	**Average Balance Six months ended**		**%**
	Mar. 31, 2007	**Mar. 31, 2006**	**Change**	**Mar. 31, 2007**	**Mar. 31, 2006**	**Change**
Money market deposit account	$14,758	$ 6,548	125%	$14,571	$ 3,130	366%
Money market mutual fund	$20,249	$ 12,554	61%	$19,493	$ 7,953	145%
Other mutual fund	$26,105	$ 18,988	37%	$25,463	$ 10,834	135%

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	Average Yield Three months ended			Average Yield Six months ended		
	Mar. 31, 2007	Mar. 31, 2006	Inc./(Dec.)	Mar. 31, 2007	Mar. 31, 2006	Inc./(Dec.)
Money market deposit account	3.52%	2.85%	0.67%	3.58%	2.85%	0.73%
Money market mutual fund	0.77%	0.74%	0.03%	0.77%	0.74%	0.03%
Other mutual fund	0.24%	0.20%	0.04%	0.24%	0.19%	0.05%

Trading Activity 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		%	Six months ended		%
	March 31, 2007	March 31, 2006	Change	March 31, 2007	March 31, 2006	Change
Total trades (in millions)	15.47	15.77	(2%)	30.32	25.54	19%
Average commissions and transaction fees per trade	$ 12.49	$ 14.04	(11%)	$ 12.70	$ 13.75	(8%)
Average client trades per day	253,631	254,382	(0%)	245,481	205,116	20%
Average client trades per account (annualized)	10.1	11.7	(14%)	9.8	10.9	(10%)
Activity rate	4.0%	4.7%	(15%)	3.9%	4.3%	(9%)
Trading days	61.0	62.0	(2%)	123.5	124.5	(1%)

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		%	Six months ended		%
	March 31, 2007	March 31, 2006	Change	March 31, 2007	March 31, 2006	Change
Qualified accounts (beginning of period)	3,255,000	1,722,000	89%	3,242,000	1,735,000	87%
Qualified accounts (end of period)	3,262,000	3,293,000	(1%)	3,262,000	3,293,000	(1%)
Percentage increase (decrease) during period	0%	91%		1%	90%	
Total accounts (beginning of period)	6,260,000	3,739,000	67%	6,191,000	3,717,000	67%
Total accounts (end of period)	6,230,000	6,070,000	3%	6,230,000	6,070,000	3%
	(0%)	62%		1%	63%	

Percentage increase (decrease) during period										
Client assets (beginning of period, in billions)	$	278.2	$	85.5	225%	$	261.7	$	83.3	214%
Client assets (end of period, in billions)	$	282.2	$	262.9	7%	$	282.2	$	262.9	7%
Percentage increase (decrease) during period		1%		207%			8%		216%	

Qualified accounts are all open client accounts with a total liquidation value of $2,000 or more, except clearing accounts. Qualified accounts are our most significant measure of client accounts because they have historically generated the vast majority of our revenues. Total accounts are all open client accounts (funded and unfunded), except clearing accounts.

Our qualified accounts increased slightly for the second quarter of fiscal 2007. We are carefully monitoring the number of qualified accounts and are taking actions designed to increase the number of qualified accounts. We expect that the integration of the TD Waterhouse clearing platform into the legacy Ameritrade clearing platform during fiscal 2007 will enable us to offer more comprehensive product offerings. If we were to experience significant decreases in the number of qualified accounts, it could have a material adverse effect on our future results of operations.

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Consolidated Statements of Income Data

The following table summarizes certain data from our Condensed Consolidated Statements of Income for analysis purposes (in millions, except percentages and interest days):

	Three months ended			Six months ended		
	March 31, 2007	March 31, 2006	% Change	March 31, 2007	March 31, 2006	% Change
Revenues:						
Transaction-based revenues:						
Commissions and transaction fees	$ 193.3	$ 221.4	(13%)	$ 385.1	$ 351.2	10%
Asset-based revenues:						
Interest revenue	250.8	254.0	(1%)	493.6	431.4	14%
Brokerage interest expense	(113.7)	(80.6)	41%	(218.0)	(130.4)	67%
Net interest revenue	137.1	173.4	(21%)	275.6	301.0	(8%)
Money market deposit account fees	129.8	45.3	186%	265.1	45.3	485%
Money market and other mutual fund fees	54.5	32.5	68%	107.0	40.2	166%
Total asset-based revenues	321.4	251.2	28%	647.7	386.5	68%
Other	10.1	24.6	(59%)	27.1	36.8	(26%)
Net revenues	524.8	497.2	6%	1,059.9	774.5	37%
Expenses:						
Employee compensation and benefits	108.6	111.7	(3%)	206.7	156.6	32%
Fair value adjustments of compensation related derivative instruments	0.1	(1.0)	(114%)	(0.5)	(1.0)	(52%)
Clearing and execution costs	22.1	19.0	16%	42.9	25.0	72%
Communications	24.7	17.2	44%	46.8	25.9	80%
Occupancy and equipment costs	17.5	18.1	(3%)	42.4	33.2	28%
Depreciation and amortization	6.1	5.2	18%	13.2	8.7	52%
Amortization of acquired intangible assets	13.4	11.3	19%	27.3	14.8	84%
Professional services	21.6	30.5	(29%)	46.7	40.1	17%
Interest on borrowings	30.0	25.8	16%	61.2	26.4	131%
Other	13.1	8.6	52%	27.9	15.4	81%
Advertising	42.8	47.5	(10%)	82.1	74.0	11%
Fair value adjustments of investment related derivative instruments			N/A		11.7	(100%)
Total expenses	300.1	293.9	2%	596.6	430.8	38%
Income before other income and income taxes	224.6	203.4	10%	463.4	343.7	35%
Other income:						
Gain on sale of investments	5.1	78.8	(94%)	5.7	78.8	(93%)

Pre-tax income	229.7	282.2	(19%)	469.1	422.5	11%
Provision for income taxes	88.6	109.4	(19%)	182.3	163.7	11%
Net income	$ 141.1	$ 172.8	(18%)	$ 286.8	$ 258.8	11%
Other information:						
Number of interest days in period	90	90	0%	183	182	1%
Effective income tax rate	38.6%	38.8%		38.9%	38.7%	

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

Three-Month Periods Ended March 31, 2007 and March 31, 2006

Net Revenues

Commissions and transaction fees decreased 13 percent to $193.3 million, primarily due to our new client offerings announced in April 2006, which included a $9.99 per trade flat-rate pricing structure for online equity trades and due to lower average client trades per day. These factors were partially offset by the second quarter of fiscal 2006 not reflecting a full quarter of TD

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Waterhouse activity. Total trades decreased two percent, as average client trades per day decreased slightly to 253,631 for the second quarter of fiscal 2007 compared to 254,382 for the second quarter of fiscal 2006 and there was one less trading day during the second quarter of fiscal 2007 than in the second quarter of 2006. Average client trades per account (annualized) were 10.1 for the second quarter of fiscal 2007 compared to 11.7 for the second quarter of fiscal 2006. Average commissions and transaction fees per trade decreased to $12.49 per trade for the second quarter of fiscal 2007 from $14.04 for the second quarter of fiscal 2006, primarily due to our new flat-rate pricing structure for online equity trades in April 2006 and the closing of our three Investment Centers during December 2006. The Investment Centers sold products such as load mutual funds and fixed income products that generated higher average commissions and transaction fees per trade than our core business. These factors were partially offset by higher payment for order flow revenue per trade during the second quarter of fiscal 2007. We expect average commissions and transaction fees to range between $12.40 and $12.90 per trade during the third quarter of fiscal 2007, depending on the mix of client trading activity, level of payment for order flow revenue and other factors. We expect revenues from commissions and transaction fees to range from $147.5 million to $221.6 million for the third quarter of fiscal 2007, depending on the volume of client trading activity, average commissions and transaction fees per trade and other factors.

Net interest revenue decreased 21 percent to $137.1 million, due primarily to the movement of over $6 billion in legacy Ameritrade client credit balances to our money market deposit account (MMDA) sweep product in late September 2006, which resulted in a shift in revenues from net interest revenue to money market deposit account fees, partially offset by the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse net interest revenue. We expect net interest revenue to range between $132.7 million and $142.0 million for the third quarter of fiscal 2007.

The MMDA agreement with TD Bank USA, N.A. (a subsidiary of TD) became effective upon the closing of our acquisition of TD Waterhouse on January 24, 2006. MMDA fees increased 186 percent to $129.8 million, due primarily to the movement of over $6 billion in legacy Ameritrade client credit balances to our MMDA sweep product in late September 2006, an increase of 67 basis points in the average net yield earned on the client MMDA assets during the second quarter of fiscal 2007 compared to the second quarter of fiscal 2006 and due to the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse MMDA fee revenue. We expect money market deposit account fees to range between $126.7 million and $132.2 million for the third quarter of fiscal 2007.

Money market and other mutual fund fees increased 68 percent to $54.5 million, primarily due to the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse money market and other mutual fund fees. We expect money market and other mutual fund fees to increase to between $56.8 million and $62.6 million for the third quarter of fiscal 2007, due primarily to an increase in the average money market and mutual fund balances.

Other revenues decreased 59 percent to $10.1 million, due primarily to the effect of our elimination of account maintenance fees in April 2006. We expect other revenues to range between $8.0 million and $10.0 million for the third quarter of fiscal 2007.

Expenses and Other Income

Total expenses increased by two percent during the second quarter of fiscal 2007 compared to the second quarter of fiscal 2006, due primarily to the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse expenses, partially offset by the expense synergies realized from the TD Waterhouse acquisition. We expect total expenses to decrease from $300.1 million for the second quarter of fiscal 2007 to between $265.1 million and $281.7 million for the third quarter of fiscal 2007, due primarily to cost reductions associated with the completion of the integration efforts, including the conversion of the legacy TD Waterhouse clearing operations to the legacy Ameritrade clearing platform. We expect total expenses to decrease further to between $229.6 million and $252.2 million for the fourth quarter of fiscal 2007, reflecting the full quarter impact of the integration efforts completed in the third quarter.

Employee compensation and benefits expense decreased three percent to $108.6 million, due primarily to a decrease of approximately $4.1 million in incentive-based compensation compared to the second quarter of fiscal 2006 and the benefit of a $2.0 million net reduction in severance accruals related to the TD Waterhouse integration during the second quarter of fiscal 2007. Incentive-based compensation for legacy Ameritrade employees was unusually high during the second quarter of fiscal 2006 as we adjusted accruals based on actual performance and to reflect new incentive plan arrangements for certain executives and other management employees. The decrease in costs was

partially offset by the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse compensation expense and $4.2 million of expense associated with moving the legacy TD Waterhouse associates into the Company s benefits program during the second quarter of fiscal 2007. Full-time equivalent employees decreased to 3,827 at March 31, 2007, from 4,115 at March 31, 2006. The number of temporary employees increased to 395 at March 31, 2007, from 229 at March 31, 2006, primarily related to the integration of TD Waterhouse.

Fair value adjustments of compensation-related derivative instruments represent adjustments to equity swap agreements that are intended to economically offset TD Waterhouse stock-based compensation that is based on the value of TD stock. Because the swap agreements were not designated for hedge accounting, the fair value adjustments are not recorded in the same category of the Condensed Statements of Income as the stock-based compensation expense, which is recorded in the employee compensation and benefits category. The related TD Waterhouse stock-based compensation expense is included in employee compensation and benefits in the Condensed Consolidated Statements of Income.

Clearing and execution costs increased 16 percent to $22.1 million, due primarily to the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse statement and confirmation processing, clearing and order routing expenses.

Communications expense increased 44 percent to $24.7 million, due primarily to a $3.4 million adjustment to estimated quote costs for the legacy TD Waterhouse business during the second quarter of fiscal 2007 and to the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse expenses for telephone, quotes and market information.

Occupancy and equipment costs decreased three percent to $17.5 million, due primarily to the effect of a favorable legacy TD Waterhouse litigation settlement of $4.6 million, partially offset by the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse expenses.

Depreciation and amortization increased 18 percent to $6.1 million, due primarily to the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse depreciation and increased software amortization related to recently developed functionality.

Amortization of acquired intangible assets increased 19 percent to $13.4 million due to the second quarter of fiscal 2006 not reflecting a full quarter of amortization of client relationship intangible assets recorded in the TD Waterhouse acquisition.

Professional services decreased 29 percent to $21.6 million, due primarily to client communication costs of $5.7 million associated with the TD Waterhouse acquisition and a $5.0 million reimbursement of professional services related to the TD Waterhouse acquisition pursuant to the terms of our Chairman s employment agreement during the second quarter of fiscal 2006, partially offset by the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse expenses.

Interest on borrowings increased 16 percent to $30.0 million, due primarily to higher average interest rates paid on our long-term debt during the second quarter of fiscal 2007 compared to the second quarter of fiscal 2006 and to the second quarter of fiscal 2006 not reflecting a full quarter of the interest expense on debt associated with the TD Waterhouse acquisition. Our average debt outstanding was approximately $1.7 billion during the second quarter of fiscal 2007, compared to $1.6 billion for the second quarter of fiscal 2006.

Other expenses increased 52 percent to $13.1 million, due primarily to the second quarter of fiscal 2006 not reflecting a full quarter of TD Waterhouse expenses and, to a lesser extent, to losses during the second quarter of fiscal 2007 reimbursed pursuant to our client asset protection guarantee. We have implemented additional processes and technologies and continue to work with our peers, regulators and law enforcement to develop strategies to minimize such losses.

Advertising expense decreased 10 percent to $42.8 million. We generally adjust our level of advertising spending in relation to stock market activity in an effort to maximize the number of new accounts while minimizing the advertising cost per new account.

Gain on sale of investments was $5.1 million for the second quarter of fiscal 2007, compared to $78.8 million for the second quarter of fiscal 2006. The large gain for the second quarter of fiscal 2006 resulted from the liquidation of our investment in Knight Capital Group, Inc. (Knight) and related prepaid variable forward contracts in January 2006.

Six-Month Periods Ended March 31, 2007 and March 31, 2006

Net Revenues

Commissions and transaction fees increased 10 percent to $385.1 million, primarily due to the addition of approximately 2.25 million accounts on January 24, 2006 in the TD Waterhouse acquisition, partially offset by lower commissions and transaction fees per trade and lower average trades per account. Total trades increased 19 percent, as

average client trades per day increased 20 percent to 245,481 for the first half of fiscal 2007 from 205,116 for the first half of fiscal 2006. Average client trades per account (annualized) were 9.8 for the first half of fiscal 2007 compared to 10.9 for the first half of fiscal 2006. Average commissions and transaction fees per trade decreased to $12.70 per trade for the first half of fiscal 2007 from $13.75 for the first half of fiscal 2006, primarily due to our new client offerings announced in April 2006 and the closing of our Investment Centers during December 2006, partially offset by higher payment for order flow revenue per trade.

Net interest revenue decreased eight percent to $275.6 million, due primarily to a $19.6 million decrease in net interest from our securities borrowing/lending program for the first half of fiscal 2007 compared to the first half of fiscal 2006 and to the movement of over $6 billion in legacy Ameritrade client credit balances to our MMDA sweep product in late September 2006,

which resulted in a shift in revenues from net interest revenue to money market deposit fees. The decreased net interest revenue resulting from these factors was partially offset by the first half of fiscal 2006 not reflecting a full period of TD Waterhouse net interest revenue.

MMDA fees increased to $265.1 million for the first half of fiscal 2007 compared to $45.3 million for the first half of fiscal 2006, due primarily to the first half of fiscal year 2006 not reflecting a full period of TD Waterhouse MMDA fee revenue, the movement of over $6.0 billion in legacy Ameritrade client credit balances to our MMDA sweep product in late September 2006 and an increase of 73 basis points in the average yield earned on the client MMDA assets during the first half of fiscal 2007 compared to the first half of fiscal 2006.

Money market and other mutual fund fees increased to $107.0 million for the first half of fiscal 2007 compared to $40.2 million for the first half of fiscal 2006, primarily due to the first half of fiscal 2006 not reflecting a full period of TD Waterhouse money market and mutual fund fees.

Other revenues decreased 26 percent to $27.1 million, due primarily to the effect of our elimination of account maintenance fees in April 2006.

Expenses and Other Income

Employee compensation and benefits expense increased 32 percent to $206.7 million, primarily due to the TD Waterhouse acquisition. Stock-based compensation expense increased by $5.3 million, primarily due to the issuance of a broad-based grant of restricted stock units in March 2006.

Clearing and execution costs increased 72 percent to $42.9 million, due primarily to increased expense for statement and confirmation processing, clearing expenses and order routing associated with additional accounts and transaction processing volumes resulting from the TD Waterhouse acquisition.

Communications expense increased 80 percent to $46.8 million, due primarily to increased expense for telephone, quotes and market information associated with the additional accounts and transaction processing volumes resulting from the TD Waterhouse acquisition.

Occupancy and equipment costs increased 28 percent to $42.4 million, due primarily to leased facilities added in the TD Waterhouse acquisition, partially offset by the effects of a favorable legacy TD Waterhouse litigation settlement of $4.6 million during the second quarter of fiscal 2007 and a $2.3 million early lease termination fee associated with our facility in Jersey City during the first quarter of fiscal 2006.

Depreciation and amortization increased 52 percent to $13.2 million, due primarily to depreciation of assets recorded in the TD Waterhouse acquisition and increased software amortization related to recently developed functionality.

Amortization of acquired intangible assets increased 84 percent to $27.3 million due to amortization of client relationship intangible assets recorded in the TD Waterhouse acquisition.

Professional services increased 17 percent to $46.7 million, due primarily to the first half of fiscal 2006 not reflecting a full period of professional services expenses, partially offset by client communication costs of $5.7 million associated with the TD Waterhouse acquisition and a $5.0 million reimbursement of professional services related to the TD Waterhouse acquisition pursuant to the terms of our Chairman s employment agreement during the second quarter of fiscal 2006.

Interest on borrowings increased to $61.2 million for the first half of fiscal 2007, compared to $26.4 million for the first half of fiscal 2006, due primarily to interest on the long-term debt issued to fund a portion of the $6.00 per share special cash dividend paid in January 2006 and working capital needs in connection with the TD Waterhouse acquisition.

Other expenses increased 81 percent to $27.9 million, due primarily to additional expenses resulting from the TD Waterhouse acquisition and client identity fraud losses during the first half of fiscal 2007 reimbursed pursuant to our asset protection guarantee.

Advertising expense increased 11 percent to $82.1 million, due primarily to the addition of TD Waterhouse advertising expenses.

Fair value adjustments of investment-related derivative instruments for the first half of fiscal 2006 consisted of $11.7 million of fair value adjustments on our Knight prepaid variable forward contracts. There were no such fair value adjustments for the first half of fiscal 2007 due to the liquidation of our investment in Knight and the related prepaid variable forward contracts in January 2006.

Gain on sale of investments was $5.7 million for the first half of fiscal 2007, compared to $78.8 million for the first half of fiscal 2006. The large gain for the second quarter of fiscal 2006 resulted from the liquidation of our investment in Knight and related prepaid variable forward contracts in January 2006.

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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 and capital needs during the first half of fiscal 2007 were financed from our earnings and cash on hand. We plan to finance our operational capital and liquidity needs primarily from our earnings and cash on hand. In addition, we may utilize our revolving credit facility or issue equity or debt securities.

Dividends from our subsidiaries are another source of liquidity for the parent company. Our broker-dealer subsidiaries are subject to requirements of the SEC and NASD 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 broker-dealer subsidiaries. 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 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 considered a non-GAAP financial measure as defined by SEC Regulation G. We define liquid assets as the sum of (a) non broker-dealer cash and cash equivalents, (b) non broker-dealer short-term investments and (c) regulatory net capital of (i) our clearing broker-dealer subsidiaries in excess of five percent of aggregate debit items and (ii) our introducing broker-dealer subsidiary in excess of 8 1/3 percent of aggregate indebtedness. We include the excess regulatory net capital of our broker-dealer subsidiaries in liquid assets rather than simply including broker-dealer cash and cash equivalents, because regulatory net capital requirements may limit the amount of cash available for dividend from the broker-dealer 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 to liquid assets for the periods indicated (in thousands):

	March 31, 2007	September 29, 2006	Change
Cash and cash equivalents	$ 547,770	$ 363,650	$ 184,120
Less: Broker-dealer cash and cash equivalents	(506,400)	(263,054)	(243,346)
Non broker-dealer cash and cash equivalents	41,370	100,596	(59,226)
Plus: Non broker-dealer short-term investments	37,600	65,275	(27,675)
Plus: Excess broker-dealer regulatory net capital	464,241	333,514	130,727
Liquid assets	$ 543,211	$ 499,385	$ 43,826

The increase in liquid assets from September 29, 2006 to March 31, 2007 is primarily due to net income of $287 million partially offset by $211 million of net cash used in financing and investing activities, excluding short-term investment activity (see Cash Flow below). The remaining $32 million of the net change in liquid assets was due primarily to timing of income tax and other payments and changes in excess regulatory net capital.

Cash Flow

Cash provided by operating activities was $367.9 million for the first half of fiscal 2007, compared to $278.1 million for the first half of fiscal 2006. The increase was primarily due to higher net income, excluding gains on the sale of

investments in equity securities, partially offset by net changes in broker-dealer working capital.

Cash provided by investing activities was $7.4 million for the first half of fiscal 2007, compared to $774.3 million for the first half of fiscal 2006. The cash provided by investing activities in the first half of fiscal 2007 consisted primarily of $27.7 million of net sales of short-term investments in auction rate securities and $10.2 million of proceeds from the sale of investments in equity securities available-for-sale, partially offset by $27.2 million of property and equipment purchases and $3.3 million paid for a small acquisition. The cash provided by investing activities for the first half of fiscal 2006 consisted primarily of $580.1 million of net cash acquired in the TD Waterhouse acquisition and $189.8 million of net sales of short-term investments in auction rate securities.

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Cash used in financing activities was $191.2 million for the first half of fiscal 2007, compared to $740.2 million for the first half of fiscal 2006. The financing activities in the first half of fiscal 2007 consisted primarily of $180.1 million of stock repurchases and $12.5 million of principal payments on our long-term debt. The financing activities in the first half of fiscal 2006 consisted primarily of $2.4 billion for payment of a $6.00 per share special cash dividend and a $200 million principal payment on notes payable, partially offset by $1.9 billion of proceeds from the issuance of long-term debt.

Stock Repurchase Program

On August 2, 2006, our Board of Directors authorized a program to repurchase up to 12 million shares of our common stock in the open market and in block trades. On November 15, 2006, the Board of Directors added 20 million shares to the original authorization, increasing the total authorization from 12 million shares to 32 million shares. During the second quarter of fiscal 2007, we repurchased approximately 3.0 million shares under the program at a weighted average purchase price of $16.62 per share. From the inception of the program through March 31, 2007, we have repurchased approximately 14.5 million shares at a weighted average purchase price of $16.98 per share.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 establishes a two-step process for evaluation of tax positions. The first step is recognition, under which the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The enterprise is required to presume the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement, under which a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Therefore, FIN No. 48 will be effective for our fiscal year beginning October 1, 2007. The cumulative effect of adopting FIN No. 48 is required to be reported as an adjustment to the opening balance of retained earnings (or other appropriate components of equity) for that fiscal year, presented separately. We are analyzing the impact of adopting FIN No. 48.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies the definition of fair value and the methods used to measure fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Therefore, SFAS No. 157 will be effective for our fiscal year beginning October 1, 2008. Adoption of SFAS No. 157 is not expected to have a material impact on our consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value at specified election dates with changes in fair value recognized in earnings at each subsequent reporting period. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Therefore, SFAS No. 159 will be effective for our fiscal year beginning October 1, 2008. Adoption of SFAS No. 159 is not expected to have a material impact on our 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. We do not hold any material market risk-sensitive instruments for trading purposes.

Credit Risk

Two primary sources of credit risk inherent in our business are client margin lending and securities lending and borrowing. We manage risk on client margin lending by requiring clients to maintain margin collateral in compliance with regulatory and internal guidelines. We monitor required margin levels daily and, pursuant to such guidelines, require our clients to deposit

additional collateral, or to reduce positions, when necessary. We continuously monitor client accounts to detect excessive concentration, large orders or positions, patterns of day trading and other activities that indicate increased risk to us. We manage risks associated with our securities lending and borrowing activities by requiring credit approvals for counterparties, by monitoring the market value of securities loaned and collateral values for securities borrowed on a daily basis and requiring additional cash as collateral for securities loaned or return of collateral for securities borrowed when necessary, and by participating in a risk-sharing program offered through a securities clearinghouse.

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 money market deposit account (MMDA) sweep arrangement with TD Bank USA, which are based on the actual net yield earned at TD Bank USA. 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 established an Asset/Liability Committee (ALCO) 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 MMDA agreement with TD Bank USA. The simulations involve assumptions that are inherently uncertain, and as a result, cannot precisely predict the impact that changes in interest rates will have on pre-tax income. Actual results may differ from simulated results due to differences in timing and frequency of rate changes, changes in market conditions, and changes in management strategy that lead to changes in the mix of interest-sensitive assets and liabilities.

The simulations assume that the asset and liability structure of the Consolidated Balance Sheet and the MMDA arrangement would not be changed as a result of simulated changes in interest rates. The results of the simulations as of March 31, 2007 indicate that an immediate one percent (100 basis point) increase or decrease in short-term interest rates would result in approximately $34 million more or less annual pre-tax income, respectively.

Other Market Risks

Our revenues and financial instruments are denominated in U.S. dollars, and we generally do not invest, except for economic hedging purposes, in derivative instruments.

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 March 31, 2007. Management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of March 31, 2007.

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

Legal The nature of the Company s business subjects it to lawsuits, arbitrations, claims and other legal proceedings. We cannot predict with certainty the outcome of pending legal proceedings. A substantial adverse judgment or other resolution could have a material adverse effect on the Company s financial condition, results of operations and cash flows. However, in the opinion of management, after consultation with legal counsel, the Company has adequate legal defenses with respect to the 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.

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Other Regulatory Matters The Company is in discussions with its regulators about matters raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines 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 of 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 29, 2006, 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 29, 2006.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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
January 1, 2007 January 26, 2007	875,039	$ 17.20	850,000	19,630,000
January 27, 2007 February 28, 2007	1,100,000	$ 17.15	1,100,000	18,530,000
March 1, 2007 March 31, 2007	1,058,800	$ 15.59	1,058,800	17,471,200
Total Three months ended March 31, 2007	3,033,839	$ 16.62	3,008,800	17,471,200

Our common stock repurchase program was authorized on August 2, 2006. Our Board of Directors originally authorized the Company to repurchase up to 12 million shares. On November 15, 2006, the Board of Directors added 20 million shares to the original authorization, increasing the total authorization from 12 million shares to 32 million shares. This program is the only program currently in effect and there were no programs that expired during the second quarter of fiscal 2007. During the month ended January 26, 2007, 25,039 shares were repurchased from employees for income tax withholding in connection with stock distributions from the Company s Executive Deferred Compensation Program.

Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Stockholders on February 27, 2007. Four persons were nominated by the Company s board of directors to serve as Class II directors for terms of three years. There was no solicitation in opposition to the nominees proposed to be elected in the Proxy Statement. The following sets forth the results of the election of directors:

Name of Nominee	FOR	WITHHELD
Marshall A. Cohen	530,920,929	15,099,254
William H. Hatanaka	502,753,370	43,266,813
Robert T. Slezak	525,908,321	20,111,862
Allan R. Tessler	533,053,971	12,966,212

A proposal to ratify the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending September 2007, was approved as follows:

FOR	AGAINST	ABSTENSIONS AND BROKER NON-VOTES
545,123,862	510,104	386,218

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A proposal to approve the Company s 2006 Directors Incentive Plan was approved as follows:

FOR	AGAINST	ABSTENSIONS AND BROKER NON-VOTES
477,895,339	12,737,148	55,387,697

A proposal to approve the Company s Management Incentive Plan was approved as follows:

FOR	AGAINST	ABSTENSIONS AND BROKER NON-VOTES
484,376,688	6,457,535	55,185,961

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)

10.1 Separation and Release of Claims Agreement, dated March 28, 2007, between Asiff Hirji and TD AMERITRADE Holding Corporation

15.1 Awareness Letter of Independent Registered Public Accounting Firm

31.1 Certification of Joseph H. Moglia, 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

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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: May 8, 2007

TD AMERITRADE Holding Corporation
(Registrant)

By: /s/ JOSEPH H. MOGLIA
Joseph H. Moglia
Chief Executive Officer
(Principal Executive Officer)

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

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