

TD AMERITRADE HOLDING CORP

Form 10-Q

August 09, 2010

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

FORM 10-Q

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 2010**
OR

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from _____ to _____
Commission file number: 0-49992**

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

Delaware
(State or other jurisdiction of
incorporation or organization)

82-0543156
(I.R.S. Employer
Identification Number)

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

(402) 331-7856

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months. Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
As of July 31, 2010, there were 576,070,620 outstanding shares of the registrant's common stock.

TD AMERITRADE HOLDING CORPORATION
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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

TD AMERITRADE Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD AMERITRADE Holding Corporation (the Company) as of June 30, 2010, and the related condensed consolidated statements of income for the three-month and nine-month periods ended June 30, 2010 and 2009, and condensed consolidated statements of cash flows for the nine-month periods ended June 30, 2010 and 2009. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of TD AMERITRADE Holding Corporation as of September 30, 2009, 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 13, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Minneapolis, Minnesota

August 9, 2010

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	June 30, 2010 (Unaudited)	September 30, 2009
ASSETS		
Cash and cash equivalents	\$ 716,463	\$ 791,211
Short-term investments	1,853	52,071
Cash and investments segregated in compliance with federal regulations	489,930	5,813,862
Receivable from brokers, dealers and clearing organizations	782,055	1,777,741
Receivable from clients net of allowance for doubtful accounts	7,531,315	5,712,261
Receivable from affiliates	77,488	92,974
Other receivables net of allowance for doubtful accounts	63,985	73,921
Securities owned, at fair value	257,218	23,405
Property and equipment net of accumulated depreciation and amortization	260,973	238,256
Goodwill	2,467,223	2,472,098
Acquired intangible assets net of accumulated amortization	1,148,999	1,224,722
Deferred income taxes	10,699	17,161
Other assets	124,037	82,127
Total assets	\$ 13,932,238	\$ 18,371,810
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	\$ 1,973,822	\$ 2,491,617
Payable to clients	5,896,317	9,914,823
Accounts payable and accrued liabilities	500,701	700,786
Payable to affiliates	3,696	3,724
Deferred revenue	71,830	72,134
Long-term debt	1,280,933	1,414,900
Capitalized lease obligations	22,715	28,565
Deferred income taxes	350,335	193,978
Total liabilities	10,100,349	14,820,527
Stockholders equity:		
Preferred stock, \$0.01 par value; 100 million shares authorized, none issued		
Common stock, \$0.01 par value; one billion shares authorized; 631,381,860 shares issued; June 30, 2010 - 576,778,430 outstanding; September 30, 2009 - 587,109,497 outstanding	6,314	6,314
Additional paid-in capital	1,555,811	1,574,638
Retained earnings	3,008,346	2,530,117

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Treasury stock, common, at cost	June 30, 2010 - 54,603,430 shares;		
September 30, 2009 - 44,272,363 shares		(738,698)	(559,883)
Deferred compensation		196	171
Accumulated other comprehensive loss		(80)	(74)
Total stockholders' equity		3,831,889	3,551,283
Total liabilities and stockholders' equity		\$ 13,932,238	\$ 18,371,810

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June		Nine Months Ended June	
	30,		30,	
	2010	2009	2010	2009
Revenues:				
Transaction-based revenues:				
Commissions and transaction fees	\$ 333,081	\$ 338,450	\$ 943,740	\$ 891,005
Asset-based revenues:				
Interest revenue	112,804	101,204	315,457	263,960
Brokerage interest expense	(1,422)	(2,564)	(4,694)	(13,076)
Net interest revenue	111,382	98,640	310,763	250,884
Insured deposit account fees	180,075	125,118	505,370	424,886
Investment product fees	33,194	39,085	92,964	156,346
Total asset-based revenues	324,651	262,843	909,097	832,116
Other revenues	34,072	12,475	99,019	26,875
Net revenues	691,804	613,768	1,951,856	1,749,996
Operating expenses:				
Employee compensation and benefits	156,251	128,216	467,767	366,413
Clearing and execution costs	22,387	16,141	68,422	46,846
Communications	27,030	20,795	76,329	57,392
Occupancy and equipment costs	35,452	29,951	104,184	89,614
Depreciation and amortization	14,499	11,162	41,573	33,299
Amortization of acquired intangible assets	25,119	17,551	75,722	48,289
Professional services	31,998	43,949	97,170	93,358
Advertising	51,596	41,376	188,359	141,170
Gains on money market funds and client guarantees	(9,209)		(11,145)	
Other	36,420	14,513	75,347	34,798
Total operating expenses	391,543	323,654	1,183,728	911,179
Operating income	300,261	290,114	768,128	838,817
Other expense:				

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Interest on borrowings	11,197	8,365	33,764	32,246
Loss on debt refinancing			8,392	
Loss on sale of investments		2,003		2,003
Total other expense	11,197	10,368	42,156	34,249
Pre-tax income	289,064	279,746	725,972	804,568
Provision for income taxes	109,625	109,209	247,743	317,603
Net income	\$ 179,439	\$ 170,537	\$ 478,229	\$ 486,965
Earnings per share basic	\$ 0.31	\$ 0.30	\$ 0.81	\$ 0.84
Earnings per share diluted	\$ 0.30	\$ 0.30	\$ 0.80	\$ 0.83
Weighted average shares outstanding basic	587,086	563,792	588,176	576,420
Weighted average shares outstanding diluted	593,647	571,772	595,221	584,623

See notes to condensed consolidated financial statements.

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

(In thousands, except share amounts)

	Nine Months Ended June 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 478,229	\$ 486,965
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,573	33,299
Amortization of acquired intangible assets	75,722	48,289
Deferred income taxes	159,856	(76,890)
Loss on sale of investments		2,003
Loss on disposal of property	2,533	3,005
Gains on money market funds and client guarantees	(11,145)	
Loss on debt refinancing	8,392	
Stock-based compensation	25,090	17,530
Excess tax benefits on stock-based compensation	(13,095)	(4,841)
Other, net	154	57
Changes in operating assets and liabilities:		
Cash and investments segregated in compliance with federal regulations	5,323,932	(4,991,563)
Receivable from brokers, dealers and clearing organizations	995,686	2,652,965
Receivable from clients, net	(1,819,054)	1,921,697
Receivable from/payable to affiliates, net	14,825	110,442
Other receivables, net	9,857	13,349
Securities owned	(225,361)	30,371
Other assets	(11,982)	(11,604)
Payable to brokers, dealers and clearing organizations	(517,795)	(3,500,931)
Payable to clients	(4,018,506)	4,117,513
Accounts payable and accrued liabilities	(175,866)	39,453
Deferred revenue	(304)	3,748
Net cash provided by operating activities	342,741	894,857
Cash flows from investing activities:		
Purchase of property and equipment	(61,180)	(45,799)
Cash and cash equivalents acquired in business combinations		86,423
Cash paid in business combinations		(266,713)
Cash received in sale of business, net		326
Purchase of short-term investments	(3,296)	
Proceeds from sale and maturity of short-term investments	3,300	
Proceeds from redemption of money market funds	51,478	317,015
Proceeds from sale of other investments available-for-sale		2,868
Other	(2)	(146)

Net cash provided by (used in) investing activities	(9,700)	93,974
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See notes to condensed consolidated financial statements.

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

(In thousands, except share amounts)

	Nine Months Ended June 30,	2010	2009
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	\$	1,248,557	\$
Payment of debt issuance costs		(10,595)	
Principal payments on long-term debt		(1,410,638)	(102,125)
Principal payments on capital lease obligations		(11,853)	(2,263)
Proceeds from exercise of stock options; Nine months ended June 30, 2010 - 3,362,788 shares; 2009 - 3,397,849 shares		11,842	22,233
Purchase of treasury stock; Nine months ended June 30, 2010 - 14,228,369 shares; 2009 - 38,991,221 shares		(248,188)	(465,452)
Excess tax benefits on stock-based compensation		13,095	4,841
Net cash used in financing activities		(407,780)	(542,766)
Effect of exchange rate changes on cash and cash equivalents		(9)	(376)
Net increase (decrease) in cash and cash equivalents		(74,748)	445,689
Cash and cash equivalents at beginning of period		791,211	674,135
Cash and cash equivalents at end of period	\$	716,463	\$ 1,119,824
Supplemental cash flow information:			
Interest paid	\$	33,847	\$ 51,893
Income taxes paid	\$	233,009	\$ 262,863
Tax benefit on exercises and distributions of stock-based compensation	\$	17,396	\$ 5,207
Noncash investing and financing activities:			
Issuance of capital lease obligations	\$	6,003	\$ 12,441
Issuance of long-term debt in exchange for assets acquired	\$		\$ 8,400
Issuance of common stock in business combinations	\$		\$ 362,967

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three-Month and Nine-Month Periods Ended June 30, 2010 and 2009
(Unaudited)

1. BASIS OF PRESENTATION

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

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report filed on Form 10-K for the fiscal year ended September 30, 2009.

Reclassifications:

Approximately \$2.0 million has been reclassified from professional services to advertising expense for the three and nine months ended June 30, 2009 on the Condensed Consolidated Statements of Income. This reclassification was made in order to conform to the current financial statement presentation.

Recently Adopted Accounting Pronouncements:

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

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

2. GOODWILL AND ACQUIRED INTANGIBLE ASSETS

The Company has recorded goodwill for purchase business combinations to the extent the purchase price of each completed acquisition exceeded the fair value of the net identifiable tangible and intangible assets of each acquired company. The following table summarizes changes in the carrying amount of goodwill for the nine months ended June 30, 2010 (dollars in thousands):

Balance as of September 30, 2009	\$ 2,472,098
Purchase accounting adjustments, net of income taxes ⁽¹⁾	(574)
Tax benefit on stock-based compensation awards ⁽²⁾	(4,301)
Balance as of June 30, 2010	\$ 2,467,223

(1)

Purchase
accounting
adjustments
primarily
consist of
adjustments to
assumed
liabilities
relating to the
acquisition of
thinkorswim
Group Inc.
(thinkorswim)
in fiscal 2009.

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(2) Represents the tax benefit realized on replacement stock awards that were issued in connection with the Datek Online Holdings Corp. (Datek) merger in fiscal 2002 and the thinkorswim acquisition. The tax benefit realized on a stock award is recorded as a reduction of goodwill to the extent the Company recorded fair value of the replacement award in the purchase accounting. To the extent any gain realized on a stock award exceeds the fair value of the replacement award recorded in the purchase accounting, the tax benefit on the excess is recorded as additional paid-in capital.

The Company's acquired intangible assets consist of the following as of June 30, 2010 (dollars in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Client relationships	\$ 1,230,469	\$ (320,547)	\$ 909,922
Technology and content	100,904	(15,499)	85,405

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Trade names	10,100	(5,659)	4,441
Non-competition agreement	5,486	(1,929)	3,557
Trademark license	145,674		145,674
	\$ 1,492,633	\$ (343,634)	\$ 1,148,999

Estimated future amortization expense for acquired intangible assets outstanding as of June 30, 2010 is as follows (dollars in thousands):

Fiscal Year	Estimated Amortization Expense
2010 Remaining	\$ 24,539
2011	96,725
2012	92,901
2013	91,630
2014	91,173
2015	90,290
Thereafter (to 2025)	516,067
Total	\$ 1,003,325

3. CASH AND CASH EQUIVALENTS

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

	June 30, 2010	September 30, 2009
Corporate	\$ 127,436	\$ 273,137
Broker-dealer subsidiaries	510,593	473,996
Trust company subsidiary	51,488	25,143
Investment advisory subsidiaries	26,946	18,935
Total	\$ 716,463	\$ 791,211

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

4. INCOME TAXES

The Company's effective income tax rate for the nine months ended June 30, 2010 was 34.1%, compared to 39.5% for the nine months ended June 30, 2009. The provision for income taxes for the nine months ended June 30, 2010 was unusually low due to \$28.8 million of favorable resolutions of certain federal and state income tax matters. These items favorably impacted the Company's earnings for the nine months ended June 30, 2010 by approximately \$0.05 per share. The provision for income

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taxes for the nine months ended June 30, 2009 was slightly higher than normal due to unfavorable deferred income tax adjustments of \$8.9 million resulting from state income tax law changes and capital loss limitations on certain money market mutual fund holdings. These items unfavorably impacted the Company's earnings for the nine months ended June 30, 2009 by approximately \$0.02 per share.

5. LONG-TERM DEBT

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

	June 30, 2010	September 30, 2009
\$250 million 2.950% Senior Notes due 2012 ⁽¹⁾	\$ 255,080	\$
\$500 million 4.150% Senior Notes due 2014 ⁽²⁾	522,240	
\$500 million 5.600% Senior Notes due 2019 ⁽³⁾	499,351	
Term A Facility		140,625
Term B Facility		1,265,875
Other	4,262	8,400
Total long-term debt	\$ 1,280,933	\$ 1,414,900