TD AMERITRADE HOLDING CORP
Form 10-Q
February 05, 2015

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

FORM 10-Q

(Mark One)
x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended December 31, 2014
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: 1-35509

TD Ameritrade Holding Corporation
(Exact name of registrant as specified in its charter)

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

200 South 108th Avenue, Omaha, Nebraska, 68154
(Address of principal executive offices) (Zip Code)
(402) 331-7856
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months. Yes x No ¨

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

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

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

As of January 28, 2015, there were 543,533,173 outstanding shares of the registrant's common stock.

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PART I – FINANCIAL INFORMATION

Item 1. – Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
TD Ameritrade Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries (the Company) as of December 31, 2014, and the related condensed consolidated statements of income, comprehensive income and cash flows for the three-month periods ended December 31, 2014 and 2013. 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 and subsidiaries as of September 30, 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated November 21, 2014. In our opinion, the accompanying condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries as of September 30, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP
Chicago, Illinois
February 5, 2015

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2014	September 30, 2014
	(In millions)	
ASSETS		
Cash and cash equivalents	$1,877	$1,460
Cash and investments segregated and on deposit for regulatory purposes	4,531	5,116
Receivable from brokers, dealers and clearing organizations	1,196	1,108
Receivable from clients, net	11,646	11,639
Receivable from affiliates	117	99
Other receivables, net	130	147
Securities owned, at fair value	441	332
Property and equipment at cost, net	540	543
Goodwill	2,467	2,467
Acquired intangible assets, net	728	751
Other assets	142	169
Total assets	$23,815	$23,831
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$2,079	$2,421
Payable to clients	14,861	14,497
Accounts payable and other liabilities	573	595
Payable to affiliates	5	5
Notes payable	113	150
Long-term debt	1,112	1,101
Deferred income taxes	312	314
Total liabilities	19,055	19,083
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 million shares issued; December 31, 2014 - 543 million shares outstanding; September 30, 2014 - 545 million shares outstanding	6	6
Additional paid-in capital	1,623	1,618
Retained earnings	4,681	4,551
Treasury stock, common, at cost: December 31, 2014 - 88 million shares; September 30, 2014 - 86 million shares	(1,523)	(1,409)
Accumulated other comprehensive loss	(27)	(18)
Total stockholders' equity	4,760	4,748
Total liabilities and stockholders' equity	$23,815	$23,831

See notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2014	2013
	(In millions, except per share amounts)	
Revenues:		
Transaction-based revenues:		
Commissions and transaction fees	$359	$328
Asset-based revenues:		
Interest revenue	163	128
Brokerage interest expense	(2)	(1)
Net interest revenue	161	127
Insured deposit account fees	207	208
Investment product fees	83	72
Total asset-based revenues	451	407
Other revenues	9	17
Net revenues	819	752
Operating expenses:		
Employee compensation and benefits	199	183
Clearing and execution costs	35	30
Communications	31	28
Occupancy and equipment costs	41	37
Depreciation and amortization	23	24
Amortization of acquired intangible assets	23	23
Professional services	37	38
Advertising	64	63
Other	22	19
Total operating expenses	475	445
Operating income	344	307
Other expense:		
Interest on borrowings	9	6
Other	1	—
Total other expense	10	6
Pre-tax income	334	301
Provision for income taxes	123	109
Net income	$211	$192
Earnings per share - basic	$0.39	$0.35
Earnings per share - diluted	$0.39	$0.35
	544	551

Weighted average shares outstanding - basic		
Weighted average shares outstanding - diluted	548	555
Dividends declared per share	$0.15	$0.62

See notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2014	2013
	(In millions)	
Net income	$211	$192
Other comprehensive loss, before tax:		
Cash flow hedging instruments:		
Net unrealized loss	(15)	—
Reclassification adjustment for portion of realized loss amortized to net income	1	—
Total other comprehensive loss, before tax	(14)	—
Income tax effect	5	—
Total other comprehensive loss, net of tax	(9)	—
Comprehensive income	$202	$192

See notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2014	2013
	(In millions)	
Cash flows from operating activities:		
Net income	$211	$192
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23	24
Amortization of acquired intangible assets	23	23
Deferred income taxes	3	12
Stock-based compensation	9	8
Excess tax benefits on stock-based compensation	(11)	(5)
Other, net	(1)	—
Changes in operating assets and liabilities:		
Cash and investments segregated and on deposit for regulatory purposes	585	555
Receivable from brokers, dealers and clearing organizations	(88)	146
Receivable from clients, net	(7)	(853)
Receivable from/payable to affiliates, net	(18)	(16)
Other receivables, net	17	13
Securities owned, at fair value	(109)	(39)
Other assets	42	(6)
Payable to brokers, dealers and clearing organizations	(342)	266
Payable to clients	364	196
Accounts payable and other liabilities	(29)	(64)
Net cash provided by operating activities	672	452
Cash flows from investing activities:		
Purchase of property and equipment	(21)	(24)
Proceeds from sale of investments	1	13
Other	3	—
Net cash used in investing activities	(17)	(11)

See notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2014	2013
	(In millions)	
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$500	$—
Payment of debt issuance costs	(5)	—
Principal payments on long-term debt	(500)	—
Proceeds from notes payable	—	155
Principal payments on notes payable	(37)	—
Payment of cash dividends	(82)	(342)
Proceeds from exercise of stock options: Three months ended December 31, 2014 - 0.6 million shares	11	—
Purchase of treasury stock: Three months ended December 31, 2014 - 4.2 million shares; 2013 - 0.4 million shares	(136)	(12)
Excess tax benefits on stock-based compensation	11	5
Net cash used in financing activities	(238)	(194)
Net increase in cash and cash equivalents	417	247
Cash and cash equivalents at beginning of period	1,460	1,062
Cash and cash equivalents at end of period	$1,877	$1,309
Supplemental cash flow information:		
Interest paid	$8	$7
Income taxes paid	$132	$120

See notes to condensed consolidated financial statements.

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TD AMERITRADE HOLDING CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Three Month Periods Ended December 31, 2014 and 2013
(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of TD Ameritrade Holding Corporation (the "Parent") 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 ("GAAP"). 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, 2014.

2. CASH AND CASH EQUIVALENTS

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

	December 31, 2014	September 30, 2014
Corporate	$358	$298
Broker-dealer subsidiaries	1,434	1,090
Futures commission merchant subsidiary	2	—
Trust company subsidiary	55	53
Investment advisory subsidiaries	28	19
Total	$1,877	$1,460

Capital requirements may limit the amount of cash available for dividend from the broker-dealer, futures commission merchant ("FCM") and trust company subsidiaries to the parent company. Most of the trust company cash and cash equivalents arises from client transactions in the process of settlement, and therefore is generally not available for corporate purposes. Cash and cash equivalents of the investment advisory subsidiaries is generally not available for corporate purposes.

3. CASH AND INVESTMENTS SEGREGATED AND ON DEPOSIT FOR REGULATORY PURPOSES

Cash and investments segregated and on deposit for regulatory purposes consists of the following (dollars in millions):

	December 31, 2014	September 30, 2014
U.S. government debt securities	$2,667	$3,070
Reverse repurchase agreements (collateralized by U.S. government debt securities)	1,291	1,193
Cash in demand deposit accounts	413	617
U.S. government debt securities on deposit with futures commission merchant	116	50
Cash on deposit with futures commission merchants	44	186
Total	$4,531	$5,116

4. INCOME TAXES

The Company's effective income tax rate for the three months ended December 31, 2014 was 36.8%, compared to 36.2% for the three months ended December 31, 2013. The provision for income taxes for the three months ended December 31, 2014 was lower than normal primarily due to $6 million of favorable resolutions of state income tax matters. This favorably impacted the Company's earnings for the three months ended December 31, 2014 by approximately one cent per share. The provision for income taxes for the three months ended December 31, 2013 was lower than normal primarily due to $9 million of favorable resolutions of state income tax matters, partially offset by $2 million of unfavorable deferred income tax adjustments resulting from state income tax law changes. These items had a net favorable impact on the Company's earnings for the three months ended December 31, 2013 of approximately one cent per share.

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5. NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt consist of the following (dollars in millions):

December 31, 2014	Face Value	Fair Value Adjustment (1)	Net Carrying Value
Notes payable:			
Parent Revolving Facility	$113	$—	$113
Long-term debt:			
Senior Notes:			
5.600% Notes due 2019	500	34	534
3.625% Notes due 2025	500	9	509
Secured Loan:			
Variable-rate Note due 2019	69	—	69
Subtotal – Long-term debt	1,069	43	1,112
Total notes payable and long-term debt	$1,182	$43	$1,225

September 30, 2014	Face Value	Fair Value Adjustment (1)	Net Carrying Value
Notes payable:			
Parent Revolving Facility	$150	$—	$150
Long-term debt:			
Senior Notes:			
4.150% Notes due 2014	500	2	502
5.600% Notes due 2019	500	30	530
Secured Loan:			
Variable-rate Note due 2019	69	—	69
Subtotal – Long-term debt	1,069	32	1,101
Total notes payable and long-term debt	$1,219	$32	$1,251

(1) Fair value adjustments relate to changes in the fair value of the debt while in a fair value hedging relationship. See “Fair Value Hedging” below.

Senior Notes - On October 17, 2014, the Company sold, through a public offering, $500 million aggregate principal amount of unsecured 3.625% Senior Notes due April 1, 2025 (the “2025 Notes”). Interest on the 2025 Notes will be payable in arrears semi-annually on April 1 and October 1 of each year. The Company used the net proceeds from the issuance of the 2025 Notes, together with cash on hand, to repay in full the outstanding principal under the Company's 4.150% Senior Notes (the "2014 Notes") that matured on December 1, 2014.

Fair Value Hedging – The Company is exposed to changes in the fair value of its fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, the Company has entered into fixed-for-variable interest rate swaps on each of its Senior Notes. Each fixed-for-variable interest rate swap has a notional amount of $500 million and a maturity date matching the maturity date of the respective Senior Notes. During December 2014, the Company paid in full the outstanding principal under the 2014 Notes and the interest rate swap on the 2014 Notes expired.

The interest rate swaps effectively change the fixed-rate interest on the Senior Notes to variable-rate interest. Under the terms of the interest rate swap agreements, the Company receives semi-annual fixed-rate interest payments based on the same rates applicable to the Senior Notes, and makes quarterly variable-rate interest payments based on three-month LIBOR plus (a) 2.3745% for the swap on the 5.600% Senior Notes due December 1, 2019 (the "2019 Notes") and (b) 1.1022% for the swap on the 2025 Notes. As of December 31, 2014, the weighted average effective interest rate on the Senior Notes was 1.94%.

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

	Three Months Ended December 31,	
	2014	2013
Gain (loss) on fair value of interest rate swaps	$11	$(11)
Gain (loss) on fair value of hedged fixed-rate debt	(11)	11
Net gain (loss) recorded in interest on borrowings	$—	$—

Cash Flow Hedging – On January 17, 2014, the Company entered into forward-starting interest rate swap contracts with an aggregate notional amount of $500 million, to hedge against changes in the benchmark interest rate component of future interest payments resulting from the anticipated refinancing of the 2014 Notes. The Company designated the contracts as a cash flow hedge of the future interest payments.

Under cash flow hedge accounting, until settlement the swap contracts are carried at fair value and, to the extent they are an effective hedge, any unrealized gains or losses are recorded in other comprehensive income (loss). Any ineffective portion of the unrealized gains or losses is immediately recorded into earnings. Upon settlement, any realized gain or loss that has been recorded in other comprehensive income (loss) is amortized into earnings over the term of the newly-issued fixed-rate debt.

On October 17, 2014, the Company sold $500 million of 2025 Notes as described under “Senior Notes” above, and paid approximately $45 million to settle the forward-starting interest rate swap contracts. As of October 17, 2014, the Company recorded $0.5 million of pre-tax loss immediately into earnings to reflect ineffectiveness resulting from the issuance of the 2025 Notes slightly earlier than forecast. As of December 31, 2014, the Company expects to amortize $4.4 million of pre-tax losses, that were reported in accumulated other comprehensive income (loss), into interest on borrowings on the Condensed Consolidated Statements of Income within the next 12 months.

The following table summarizes pre-tax losses resulting from changes in the fair value of the forward-starting interest rate swaps for the periods indicated (dollars in millions):

	Amount of Loss Recognized in Other Comprehensive Loss (Effective Portion) Three Months Ended December 31,	
	2014	2013
Forward-starting interest rate swaps	$(15)	$—

Balance Sheet Impact of Hedging Instruments — The following table summarizes the fair value of outstanding derivatives designated as hedging instruments on the Condensed Consolidated Balance Sheets (dollars in millions):

	Balance Sheet Location	December 31, 2014	September 30, 2014
Interest rate contracts:			
Pay-variable interest rate swaps designated as fair value hedges	Other assets	$43	$32
Forward-starting interest rate swaps designated as cash flow hedges	Accounts payable and other liabilities	$—	$(29)

The interest rate swaps are subject to counterparty credit risk. Credit risk is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold, by entering into credit support agreements, or by utilizing approved central clearing counterparties registered with the Commodity Futures Trading Commission ("CFTC"). The interest rate swaps require daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps (including accrued interest). As of December 31, 2014 and September 30, 2014, the pay-variable interest rate swap counterparties had pledged $45 million and $47 million of collateral, respectively, to the Company in the form of cash. A liability for collateral pledged to the Company in the form of cash is recorded in accounts payable and other liabilities on the Condensed Consolidated Balance

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Sheets. As of September 30, 2014 the Company had pledged $43 million of collateral to the forward-starting interest rate swap counterparties in the form of cash. An asset for collateral pledged to the swap counterparties in the form of cash is recorded in other assets on the Condensed Consolidated Balance Sheets.

6. CAPITAL REQUIREMENTS

The Company's broker-dealer subsidiaries are subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934, or the "Exchange Act"), administered by the SEC and the Financial Industry Regulatory Authority ("FINRA"), which requires the maintenance of minimum net capital, as defined. Net capital and the related net capital requirement may fluctuate on a daily basis. TD Ameritrade Clearing, Inc., the Company's clearing broker-dealer subsidiary, and TD Ameritrade, Inc., the Company's introducing broker-dealer subsidiary, compute net capital under the alternative method as permitted by Rule 15c3-1. TDAC is required to maintain minimum net capital of the greater of $1.5 million, which is based on the type of business conducted by the broker-dealer, or 2% of aggregate debit balances arising from client transactions.

Under Rule 15c3-1, TD Ameritrade, Inc. is required to maintain minimum net capital of the greater of $250,000 or 2% of aggregate debit balances. As an FCM registered with the CFTC, TD Ameritrade, Inc. is also subject to CFTC Regulation 1.17 under the Commodity Exchange Act, administered by the CFTC and the National Futures Association, which requires the maintenance of minimum net capital of the greatest of (a) $1.0 million, (b) its futures risk-based capital requirement, equal to 8% of the total risk margin requirement for all futures positions carried by the FCM in client and nonclient accounts, or (c) its Rule 15c3-1 net capital requirement.

Under the alternative method, a broker-dealer may not repay any subordinated borrowings, pay cash dividends or make any unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of (a) less than 5% of aggregate debit balances, (b) less than 110% of its risk-based capital requirement under CFTC Regulation 1.17, or (c) less than 120% of its minimum dollar requirement. These net capital thresholds, which are specified in Exchange Act Rule 17a-11 and CFTC Regulation 1.12, are typically referred to as "early warning" net capital thresholds.

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

TD Ameritrade Clearing, Inc.

Date	Net Capital	Required Net Capital (2% of Aggregate Debit Balances)	Net Capital in Excess of Required Net Capital	Net Capital in Excess of Early Warning Threshold (5% of Aggregate Debit Balances)	Ratio of Net Capital to Aggregate Debit Balances
December 31, 2014	$1,552	$278	$1,274	$856	11.15 %
September 30, 2014	$1,569	$280	$1,289	$868	11.19 %

TD Ameritrade, Inc.

Date	Net Capital	Required Net Capital (8% of Total Risk Margin)	Net Capital in Excess of Required Net Capital	Net Capital in Excess of Early Warning Threshold (110% of Required Net Capital)
December 31, 2014	$263	$11	$252	$251
September 30, 2014	$347	$17	$330	$328

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During October 2014, TD Ameritrade Futures & Forex LLC ("TDAFF"), a subsidiary of the Company, registered as an FCM with the CFTC. Although TDAFF has not yet commenced operations, it is subject to CFTC Regulation 1.17 under the Commodity Exchange Act, which requires the maintenance of minimum net capital as described above. Net capital and net capital requirements for TDAFF are summarized in the following table (dollars in millions):

TD Ameritrade Futures & Forex LLC

Date	Net Capital	Required Net Capital (Minimum Dollar Requirement)	Net Capital in Excess of Required Net Capital	Net Capital in Excess of Early Warning Threshold (150% of Required Net Capital)
December 31, 2014	$2	$1	1	$—
September 30, 2014	N/A	N/A	N/A	N/A

The Company’s non-depository trust company subsidiary, TD Ameritrade Trust Company (“TDATC”), is subject to capital requirements established by the State of Maine, which require TDATC to maintain minimum Tier 1 capital, as defined. TDATC’s Tier 1 capital was $28 million and $27 million as of December 31, 2014 and September 30, 2014, respectively, which exceeded the required Tier 1 capital by $13 million and $12 million, respectively.

7. COMMITMENTS AND CONTINGENCIES

Legal and Regulatory Matters

Order Routing Litigation – Five putative class action complaints have been filed regarding TD Ameritrade’s routing of client orders. The cases are pending in the U.S. District Court for the District of Nebraska: Jay Zola et al. v. TD Ameritrade, Inc., et al.; Tyler Verdieck v. TD Ameritrade, Inc.; Bruce Lerner v. TD Ameritrade, Inc.; Michael Sarbacker v. TD Ameritrade Holding Corporation, et al.; Gerald Klein v. TD Ameritrade Holding Corporation, et al. The complaints in Zola, Klein and Sarbacker allege that the defendants failed to provide clients with “best execution” and routed orders to the market venue that paid the most for its order flow. The complaints in Verdieck and Lerner allege that the defendant routed its clients’ non-marketable limit orders to the venue paying the highest rates of maker rebates, and that clients did not receive best execution on these kinds of orders. The complaints variously include claims of breach of contract, breach of fiduciary duty, breach of the duty of best execution, fraud, negligent misrepresentation, violations of Section 10(b) and 20 of the Exchange Act and SEC Rule 10b-5, violation of Nebraska’s Consumer Protection Act, aiding and abetting, unjust enrichment and declaratory judgment. The complaints seek various kinds of relief including damages, restitution, disgorgement, injunctive relief, equitable relief and other relief. The Company intends to vigorously defend against these lawsuits. The Company is unable to predict the outcome or the timing of the ultimate resolution of these lawsuits, or the potential losses, if any, that may result.

Reserve Fund Matters – During September 2008, The Reserve, an independent mutual fund company, announced that the net asset value of the Reserve Yield Plus Fund declined below $1.00 per share. The Yield Plus Fund was not a money market mutual fund, but its stated objective was to maintain a net asset value of $1.00 per share.

TD Ameritrade, Inc.’s clients continue to hold shares in the Yield Plus Fund (now known as “Yield Plus Fund – In Liquidation”), which is being liquidated. On July 23, 2010, The Reserve announced that through that date it had distributed approximately 94.8% of the Yield Plus Fund assets as of September 15, 2008 and that the Yield Plus Fund had approximately $39.7 million in total remaining assets. The Reserve stated that the fund’s Board of Trustees has set aside almost the entire amount of the remaining assets to cover potential claims, fees and expenses. The Company estimates that TD Ameritrade, Inc. clients’ current positions held in the Reserve Yield Plus Fund amount to approximately 79% of the fund.

On January 27, 2011, TD Ameritrade, Inc. entered into a settlement with the SEC, agreeing to pay $0.012 per share to all eligible current or former clients that purchased shares of the Yield Plus Fund and continued to own those shares. Clients who purchased Yield Plus Fund shares through independent registered investment advisors were not eligible for the payment. In February 2011, the Company paid clients approximately $10 million under the settlement agreement.

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

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damages including interest, attorneys' fees, rescission, exemplary damages and equitable relief. On January 19, 2010, the defendants submitted motions to dismiss the complaint. The motions are pending.

The Company estimates that its clients' current aggregate shortfall, based on the original par value of their holdings in the Yield Plus Fund, less the value of fund distributions to date and payments to clients under the SEC settlement, is approximately $36 million. This amount does not take into account any assets remaining in the fund that may become available for future distributions.

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

Other Legal and Regulatory Matters – The Company is subject to a number of other lawsuits, arbitrations, claims and other legal proceedings in connection with its business. Some of these legal actions include claims for substantial or unspecified compensatory and/or punitive damages. In addition, in the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions. ASC 450, Loss Contingencies, governs the recognition and disclosure of loss contingencies, including potential losses from legal and regulatory matters. ASC 450 categorizes loss contingencies using three terms based on the likelihood of occurrence of events that result in a loss: "probable" means that "the future event or events are likely to occur;" "remote" means that "the chance of the future event or events occurring is slight;" and "reasonably possible" means that "the chance of the future event or events occurring is more than remote but less than likely." Under ASC 450, the Company accrues for losses that are considered both probable and reasonably estimable. The Company may incur losses in addition to the amounts accrued where the losses are greater than estimated by management, or for matters for which an unfavorable outcome is considered reasonably possible, but not probable.

The Company estimates that the aggregate range of reasonably possible losses in excess of amounts accrued is from $0 to $30 million as of December 31, 2014. This estimated aggregate range of reasonably possible losses is based upon currently available information for those legal and regulatory matters in which the Company is involved, taking into account the Company's best estimate of reasonably possible losses for those cases as to which an estimate can be made. For certain cases, the Company does not believe an estimate can currently be made, as some cases are in preliminary stages and some cases have no specific amounts claimed. The Company's estimate involves significant judgment, given the varying stages of the proceedings and the inherent uncertainty of predicting outcomes. The estimated range will change from time to time as the underlying matters, stages of proceedings and available information change. Actual losses may vary significantly from the current estimated range.

The Company believes, based on its current knowledge and after consultation with counsel, that the ultimate disposition of these legal and regulatory matters, individually or in the aggregate, is not likely to have a material adverse effect on the financial condition or cash flows of the Company. However, in light of the uncertainties involved in such matters, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters, or the potential losses, fines, penalties or equitable relief, if any, that may result, and it is possible that the ultimate resolution of one or more of these matters may be material to the Company's results of operations for a particular reporting period.

Income Taxes

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

General Contingencies

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

The Company extends margin credit and leverage to its clients. In margin transactions, the Company extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. In connection with these activities, the Company also executes and clears client transactions involving the sale of securities not yet purchased ("short sales"). Such margin-related transactions may expose the Company to credit risk in the event a client's assets are not sufficient to fully cover losses that the client may incur. Leverage involves securing a large potential future obligation with a lesser amount of cash and securities. The risks associated with margin credit and leverage increase during periods of rapid market movements, or in cases where leverage or collateral is concentrated and market movements occur. In the event the client

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fails to satisfy its obligations, the Company has the authority to purchase or sell financial instruments in the client's account at prevailing market prices in order to fulfill the client's obligations. However, during periods of rapid market movements, clients who utilize margin credit or leverage and who have collateralized their obligations with securities may find that the securities have a rapidly depreciating value and may not be sufficient to cover their obligations in the event of liquidation. The Company seeks to mitigate the risks associated with its client margin and leverage activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels throughout each trading day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

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

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

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

The Company has accepted collateral in connection with client margin loans and securities borrowed. Under applicable agreements, the Company is generally permitted to repledge securities held as collateral and use them to enter into securities lending arrangements. The following table summarizes the fair values of client margin securities and stock borrowings that were available to the Company to utilize as collateral on various borrowings or for other purposes, and the amount of that collateral loaned or repledged by the Company (dollars in billions):

	December 31, 2014	September 30, 2014
Client margin securities	$16.1	$16.2
Stock borrowings	1.0	1.0
Total collateral available	$17.1	$17.2
Collateral loaned	$2.0	$2.4
Collateral repledged	2.5	2.5
Total collateral loaned or repledged	$4.5	$4.9

The Company is subject to cash deposit and collateral requirements with clearinghouses based on its clients' trading activity. The following table summarizes cash deposited with and securities pledged to clearinghouses by the Company (dollars in millions):

Assets	Balance Sheet Classification	December 31, 2014	September 30, 2014
Cash	Receivable from brokers, dealers and clearing organizations	$169	$104

U.S. government debt securities	Securities owned, at fair value	286	181
Total		$455	$285

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Guarantees

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

The Company clears its clients’ futures transactions on an omnibus account basis through unaffiliated clearing firms. The Company has agreed to indemnify the unaffiliated clearing firms for any loss that they may incur for the client transactions introduced to them by the Company.

See “Insured Deposit Account Agreement” in Note 12 for a description of a guarantee included in that agreement.

8. FAIR VALUE DISCLOSURES

Fair Value Measurement — Definition and Hierarchy

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

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

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

- Level 1— Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. This category includes active exchange-traded funds, money market mutual funds, mutual funds and equity securities.
- Level 2— Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Such inputs include quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active and inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. This category includes most debt securities and other interest-sensitive financial instruments.
- Level 3 — Unobservable inputs for the asset or liability, where there is little, if any, observable market activity or data for the asset or liability.

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The following tables present the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and September 30, 2014 (dollars in millions):

	As of December 31, 2014			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	$1,420	$—	$—	$1,420
Investments segregated for regulatory purposes:				
U.S. government debt securities	—	2,783	—	2,783
Securities owned:				
Money market and other mutual funds	—	—	1	1
U.S. government debt securities	—	434	—	434
Other	2	4	—	6
Subtotal - Securities owned	2	438	1	441
Other assets:				
Pay-variable interest rate swaps[(1)]	—	43	—	43
U.S. government debt securities	—	3	—	3
Auction rate securities	—	—	1	1
Subtotal - Other assets	—	46	1	47
Total assets at fair value	$1,422	$3,267	$2	$4,691
Liabilities:				
Accounts payable and other liabilities:				
Securities sold, not yet purchased:				
Equity securities	$31	$—	$—	$31
U.S. government debt securities	—	6	—	6
Total liabilities at fair value	$31	$6	$—	$37

(1) See "Fair Value Hedging" in Note 5 for details.

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	As of September 30, 2014			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	$1,284	$—	$—	$1,284
Investments segregated for regulatory purposes:				
U.S. government debt securities	—	3,120	—	3,120
Securities owned:				
Money market and other mutual funds	—	—	1	1
U.S. government debt securities	—	326	—	326
Other	2	3	—	5
Subtotal - Securities owned	2	329	1	332
Other assets:				
Pay-variable interest rate swaps(1)	—	32	—	32
U.S. government debt securities	—	4	—	4
Auction rate securities	—	—	1	1
Subtotal - Other assets	—	36	1	37
Total assets at fair value	$1,286	$3,485	$2	$4,773
Liabilities:				
Accounts payable and other liabilities:				
Forward-starting interest rate swaps(2)	$—	$29	$—	$29
Securities sold, not yet purchased:				
Equity securities	1	—	—	1
Total liabilities at fair value	$1	$29	$—	$30

(1) See “Fair Value Hedging” in Note 5 for details.
(2) See “Cash Flow Hedging” in Note 5 for details.

There were no transfers between any levels of the fair value hierarchy during the periods covered by this report.

Valuation Techniques

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

Level 2 Measurements:

Debt Securities – Fair values for debt securities are based on prices obtained from an independent pricing vendor. The primary inputs to the valuation include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. The Company validates the vendor pricing by periodically comparing it to pricing from another independent pricing service. The Company has not adjusted prices obtained from the independent pricing vendor for any periods presented in the condensed consolidated financial statements because no significant pricing differences have been observed.

Interest Rate Swaps – These derivatives are valued by the Company using a valuation model provided by a third party service that incorporates interest rate yield curves, which are observable for substantially the full term of the contract. The valuation model is widely accepted in the financial services industry and does not involve significant judgment because most of the inputs are observable in the marketplace. Credit risk is not an input to the valuation because in each case the Company or counterparty has

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possession of collateral, in the form of cash or U.S. Treasury securities, in amounts equal to or exceeding the fair value of the interest rate swaps. The Company validates the third party service valuations by comparing them to valuation models provided by the swap counterparties.

Level 3 Measurements:

The Company has no material assets or liabilities classified as Level 3 of the fair value hierarchy.

Fair Value of Financial Instruments Not Recorded at Fair Value

Cash and cash equivalents, receivable from/payable to brokers, dealers and clearing organizations, receivable from/payable to clients, receivable from/payable to affiliates, other receivables, accounts payable and other liabilities and notes payable are short-term in nature and accordingly are carried at amounts that approximate fair value. Cash and cash equivalents include cash and highly-liquid investments with an original maturity of three months or less (categorized as Level 1 of the fair value hierarchy). Receivable from/payable to brokers, dealers and clearing organizations, receivable from/payable to clients, receivable from/payable to affiliates, other receivables, accounts payable and other liabilities and notes payable are recorded at or near their respective transaction prices and historically have been settled or converted to cash at approximately that value (categorized as Level 2 of the fair value hierarchy).

Cash and investments segregated and on deposit for regulatory purposes includes reverse repurchase agreements (securities purchased under agreements to resell). Reverse repurchase agreements are treated as collateralized financing transactions and are carried at amounts at which the securities will subsequently be resold, plus accrued interest. The Company's reverse repurchase agreements generally have a maturity of seven days and are collateralized by U.S. Treasury securities in amounts exceeding the carrying value of the resale agreements. Accordingly, the carrying value of reverse repurchase agreements approximates fair value (categorized as Level 2 of the fair value hierarchy). In addition, this category includes cash held in demand deposit accounts and on deposit with a futures commission merchant, for which the carrying values approximate the fair value (categorized as Level 1 of the fair value hierarchy). See Note 3 for a summary of cash and investments segregated and on deposit for regulatory purposes.

Long-term debt – As of December 31, 2014, the Company's Senior Notes had an aggregate estimated fair value, based on quoted market prices (categorized as Level 1 of the fair value hierarchy), of approximately $1.100 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $1.043 billion. As of September 30, 2014, the Company's Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $1.081 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $1.032 billion.

As of December 31, 2014 and September 30, 2014, the $69 million carrying value of the Company's variable-rate secured loan approximates fair value because of the frequent repricing of the loan based on market interest rates (categorized as Level 2 of the fair value hierarchy).

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9. OFFSETTING ASSETS AND LIABILITIES

Substantially all of the Company's reverse repurchase agreements, securities borrowing and securities lending activity and derivative financial instruments are transacted under master agreements that may allow for net settlement in the ordinary course of business, as well as offsetting of all contracts with a given counterparty in the event of default by one of the parties. However, for financial statement purposes, the Company does not net balances related to these financial instruments.

The following tables present information about the potential effect of rights of setoff associated with the Company's recognized assets and liabilities as of December 31, 2014 and September 30, 2014 (dollars in millions):

	December 31, 2014					
				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet	Financial Instruments(3)	Collateral Received or Pledged (Including Cash) (4)	Net Amount (5)
Assets:						
Investments segregated for regulatory purposes:						
Reverse repurchase agreements	$1,291	$ —	$1,291	$—	$(1,291)	$—
Receivable from brokers, dealers and clearing organizations:						
Deposits paid for securities borrowed (1)	1,015	—	1,015	(82)	(906)	27
Other assets:						
Pay-variable interest rate swaps	43	—	43	—	(43)	—
Total	$2,349	$ —	$2,349	$(82)	$(2,240)	$27
Liabilities:						
Payable to brokers, dealers and clearing organizations:						
Deposits received for securities loaned (2)	$2,030	$ —	$2,030	$(82)	$(1,712)	$236

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	September 30, 2014					
				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet	Financial Instruments[3]	Collateral Received or Pledged (Including Cash) [4]	Net Amount [5]
Assets:						
Investments segregated for regulatory purposes:						
Reverse repurchase agreements	$1,193	$—	$1,193	$—	$(1,193)	$—
Receivable from brokers, dealers and clearing organizations:						
Deposits paid for securities borrowed [1]	995	—	995	(69)	(900)	26
Other assets:						
Pay-variable interest rate swaps	32	—	32	—	(32)	—
Total	$2,220	$—	$2,220	$(69)	$(2,125)	$26
Liabilities:						
Payable to brokers, dealers and clearing organizations:						
Deposits received for securities loaned [2]	$2,384	$—	$2,384	$(69)	$(2,015)	$300
Accounts payable and other liabilities:						
Forward-starting interest rate swaps	29	—	29	—	(29)	—
Total	$2,413	$—	$2,413	$(69)	$(2,044)	$300

(1) Included in the gross amounts of deposits paid for securities borrowed is $630 million and $616 million as of December 31, 2014 and September 30, 2014, respectively, transacted through a risk-sharing program with the OCC, which guarantees the return of cash to the Company.

(2) Included in the gross amounts of deposits received for securities loaned is $640 million and $754 million as of December 31, 2014 and September 30, 2014, respectively, transacted through a risk-sharing program with the OCC, which guarantees the return of securities to the Company.

(3)

Amounts represent recognized assets and liabilities that are subject to enforceable master agreements with rights of setoff.

(4) Represents the fair value of collateral the Company had received or pledged under enforceable master agreements, limited for table presentation purposes to the net amount of the recognized assets due from or liabilities due to each counterparty. At December 31, 2014 and September 30, 2014, the Company had received total collateral with a fair value of $2,348 million and $2,231 million, respectively, and pledged total collateral with a fair value of $1,789 million and $2,124 million, respectively.

(5) Represents the amount for which, in the case of net recognized assets, the Company had not received collateral, and in the case of net recognized liabilities, the Company had not pledged collateral.

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10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the net change in fair value recorded for the component of other comprehensive loss before and after income tax for the periods indicated (dollars in millions):

	Three Months Ended December 31,					
	2014			2013		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Cash flow hedging instruments:						
Net unrealized loss	$(15)	$5	$(10)	$—	$—	$—
Reclassification adjustment for portion of realized loss amortized to net income [1]	1	—	1	—	—	—
Other comprehensive loss	$(14)	$5	$(9)	$—	$—	$—

(1) The before tax reclassification adjustment amount and the related tax effect are included in interest on borrowings and provision for income taxes, respectively, on the Condensed Consolidated Statements of Income.

The following table presents after-tax changes in accumulated other comprehensive loss (dollars in millions):

	Three Months Ended December 31,	
	2014	2013
Cash flow hedging instruments:		
Beginning balance	$(18)	$—
Other comprehensive loss before reclassification	(10)	—
Amount reclassified from accumulated other comprehensive loss	1	—
Current period change	(9)	—
Ending balance	$(27)	$—

11. EARNINGS PER SHARE

The difference between the numerator and denominator used in the computation of basic and diluted earnings per share consists of common stock equivalent shares related to stock-based compensation for all periods presented. There were no material antidilutive awards for the three months ended December 31, 2014 and 2013.

12. RELATED PARTY TRANSACTIONS

Transactions with TD and Affiliates

As a result of the Company's acquisition of TD Waterhouse during fiscal 2006, TD became an affiliate of the Company. TD owned approximately 41% of the Company's common stock as of December 31, 2014. Pursuant to the Stockholders Agreement among TD, the Company and certain other stockholders, TD has the right to designate five of twelve members of the Company's board of directors. The Company transacts business and has extensive relationships with TD and certain of its affiliates. Transactions with TD and its affiliates are discussed and summarized below.

Insured Deposit Account Agreement

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

The current IDA agreement became effective as of January 1, 2013 and has an initial term expiring July 1, 2018. It is automatically renewable for successive five-year terms, provided that it may be terminated by either the Company or the TD Depository

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Institutions by providing written notice of non-renewal at least two years prior to the initial expiration date or the expiration date of any subsequent renewal period.

The fee earned on the IDA agreement is calculated based on two primary components: (a) the yield on fixed-rate "notional" investments, based on prevailing fixed rates for identical balances and maturities in the interest rate swap market (generally LIBOR-based) at the time such investments were added to the IDA portfolio (including any adjustments required to adjust the variable rate leg of such swaps to a one-month reset frequency and the overall swap payment frequency to monthly) and (b) the yield on floating-rate investments. As of December 31, 2014, the IDA portfolio was comprised of approximately 74% fixed-rate notional investments and 26% floating-rate investments.

The IDA agreement provides that the Company may designate amounts and maturity dates for the fixed-rate notional investments in the IDA portfolio, subject to certain limitations. For example, if the Company designates that $100 million of deposits be invested in 5-year fixed-rate investments, and on the day such investment is confirmed by the TD Depository Institutions the prevailing fixed yield for the applicable 5-year U.S. dollar LIBOR-based swaps is 1.45%, then the Company will earn a gross fixed yield of 1.45% on that portion of the portfolio (before any deductions for interest paid to clients, the servicing fee to the TD Depository Institutions and the cost of FDIC insurance premiums). In the event that (1) the federal funds effective rate is established at 0.75% or greater and (2) the rate on 5-year U.S. dollar interest rate swaps is equal to or greater than 1.50% for 20 consecutive business days, then the rate earned by the Company on new fixed-rate notional investments will be reduced by 20% of the excess of the 5-year U.S. dollar swap rate over 1.50%, up to a maximum of 0.10%.

The yield on floating-rate investments is calculated daily based on the greater of the following rates published by the Federal Reserve: (1) the interest rate paid by Federal Reserve Banks on balances held in excess of required reserve balances and contractual clearing balances under Regulation D and (2) the daily effective federal funds rate.

The interest rates paid to clients are set by the TD Depository Institutions and are not linked to any index. The servicing fee to the TD Depository Institutions under the IDA agreement is equal to 25 basis points on the aggregate average daily balance in the IDA accounts, subject to adjustment as it relates to deposits of less than or equal to $20 billion kept in floating-rate investments or in fixed-rate notional investments with a maturity of up to 24 months ("short-term fixed-rate investments"). For floating-rate and short-term fixed-rate investments, the servicing fee is equal to the difference of the interest rate earned on the investments less the FDIC premiums paid (in basis points), divided by two. The servicing fee has a floor of 3 basis points (subject to adjustment from time to time to reflect material changes to the TD Depository Institutions' leverage costs) and a maximum of 25 basis points.

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

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

		Revenues from TD and Affiliates	
		Three months ended December 31,	
Description	Statement of Income Classification	2014	2013
Insured Deposit Account Agreement	Insured deposit account fees	$207	$208
Referral and Strategic Alliance Agreement	Various	3	3
Other	Various	2	1

Total revenues		$212	$212

Description	Statement of Income Classification	Expenses to TD and Affiliates Three months ended December 31, 2014	2013
Canadian Call Center Services Agreement	Professional services	$4	$4

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

	December 31, 2014	September 30, 2014
Assets:		
Receivable from brokers, dealers and clearing organizations	$—	$1
Receivable from affiliates	117	99
Liabilities:		
Payable to brokers, dealers and clearing organizations	$52	$96
Payable to affiliates	5	5

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

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13. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The 2019 Notes are jointly and severally and fully and unconditionally guaranteed by TD Ameritrade Online Holdings Corp. ("TDAOH"), a wholly-owned subsidiary of the Company. Presented below is condensed consolidating financial information for the Company, its guarantor subsidiary and its non-guarantor subsidiaries for the periods indicated. Because all other comprehensive loss activity occurred on the parent company for all periods presented, condensed consolidating statements of comprehensive income are not presented.

CONDENSED CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2014
(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
ASSETS					
Cash and cash equivalents	$173	$2	$ 1,702	$—	$1,877
Cash and investments segregated and on deposit for regulatory purposes	—	—	4,531	—	4,531
Receivable from brokers, dealers and clearing organizations	—	—	1,196	—	1,196
Receivable from clients, net	—	—	11,646	—	11,646
Investments in subsidiaries	5,784	5,670	—	(11,454)	—
Receivable from affiliates	4	3	120	(10)	117
Goodwill	—	—	2,467	—	2,467
Acquired intangible assets, net	—	146	582	—	728
Other, net	117	15	1,178	(57)	1,253
Total assets	$6,078	$5,836	$ 23,422	$(11,521)	$23,815
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	$—	$—	$ 2,079	$—	$2,079
Payable to clients	—	—	14,861	—	14,861
Accounts payable and other liabilities	87	—	498	(12)	573
Payable to affiliates	6	—	9	(10)	5
Notes payable	113	—	—	—	113
Long-term debt	1,112	—	—	—	1,112
Deferred income taxes	—	52	305	(45)	312
Total liabilities	1,318	52	17,752	(67)	19,055
Stockholders' equity	4,760	5,784	5,670	(11,454)	4,760
Total liabilities and stockholders' equity	$6,078	$5,836	$ 23,422	$(11,521)	$23,815

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CONDENSED CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2014
(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
ASSETS					
Cash and cash equivalents	$117	$2	$ 1,341	$—	$1,460
Cash and investments segregated and on deposit for regulatory purposes	—	—	5,116	—	5,116
Receivable from brokers, dealers and clearing organizations	—	—	1,108	—	1,108
Receivable from clients, net	—	—	11,639	—	11,639
Investments in subsidiaries	5,868	5,754	—	(11,622)	—
Receivable from affiliates	11	2	97	(11)	99
Goodwill	—	—	2,467	—	2,467
Acquired intangible assets, net	—	146	605	—	751
Other, net	156	16	1,073	(54)	1,191
Total assets	$6,152	$5,920	$ 23,446	$(11,687)	$23,831
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	$—	$—	$ 2,421	$—	$2,421
Payable to clients	—	—	14,497	—	14,497
Accounts payable and other liabilities	153	—	455	(13)	595
Payable to affiliates	—	—	16	(11)	5
Notes payable	150	—	—	—	150
Long-term debt	1,101	—	—	—	1,101
Deferred income taxes	—	52	303	(41)	314
Total liabilities	1,404	52	17,692	(65)	19,083
Stockholders' equity	4,748	5,868	5,754	(11,622)	4,748
Total liabilities and stockholders' equity	$6,152	$5,920	$ 23,446	$(11,687)	$23,831

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CONDENSED CONSOLIDATING STATEMENT OF INCOME
THREE MONTHS ENDED DECEMBER 31, 2014
(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Net revenues	$5	$—	$ 819	$(5)	$819
Operating expenses	4	—	476	(5)	475
Operating income	1	—	343	—	344
Other expense	10	—	—	—	10
Income (loss) before income taxes and equity in income of subsidiaries	(9)	—	343	—	334
Provision for (benefit from) income taxes	(5)	—	128	—	123
Income (loss) before equity in income of subsidiaries	(4)	—	215	—	211
Equity in income of subsidiaries	215	215	—	(430)	—
Net income	$211	$215	$ 215	$(430)	$211

CONDENSED CONSOLIDATING STATEMENT OF INCOME
THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
Net revenues	$2	$—	$ 752	$(2)	$752
Operating expenses	1	—	446	(2)	445
Operating income	1	—	306	—	307
Other expense	6	—	—	—	6
Income (loss) before income taxes and equity in income of subsidiaries	(5)	—	306	—	301
Provision for (benefit from) income taxes	(9)	—	118	—	109
Income before equity in income of subsidiaries	4	—	188	—	192
Equity in income of subsidiaries	188	184	11	(383)	—
Net income	$192	$184	$ 199	$(383)	$192

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
THREE MONTHS ENDED DECEMBER 31, 2014
(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
	(In millions)			
Net cash provided by (used in) operating activities	$(7)	$1	$ 678	$672
Cash flows from investing activities:				
Purchase of property and equipment	—	—	(21)	(21)
Proceeds from sale of investments	1	—	—	1
Other	—	—	3	3
Net cash provided by (used in) investing activities	1	—	(18)	(17)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	500	—	—	500
Payment of debt issuance costs	(5)	—	—	(5)
Principal payments on long-term debt	(500)	—	—	(500)
Principal payments on notes payable	(37)	—	—	(37)
Payment of cash dividends	(82)	—	—	(82)
Purchase of treasury stock	(136)	—	—	(136)
Other	22	—	—	22
Net cash used in financing activities	(238)	—	—	(238)
Intercompany investing and financing activities, net	300	(1)	(299)	—
Net increase in cash and cash equivalents	56	—	361	417
Cash and cash equivalents at beginning of period	117	2	1,341	1,460
Cash and cash equivalents at end of period	$173	$2	$ 1,702	$1,877

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
THREE MONTHS ENDED DECEMBER 31, 2013
(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Total
	(In millions)			
Net cash provided by (used in) operating activities	$(53)	$1	$504	$452
Cash flows from investing activities:				
Purchase of property and equipment	—	—	(24)	(24)
Proceeds from sale of investments	13	—	—	13
Net cash provided by (used in) investing activities	13	—	(24)	(11)
Cash flows from financing activities:				
Proceeds from notes payable	155	—	—	155
Payment of cash dividends	(342)	—	—	(342)
Purchase of treasury stock	(12)	—	—	(12)
Other, net	5	—	—	5
Net cash used in financing activities	(194)	—	—	(194)
Intercompany investing and financing activities, net	117	—	(117)	—
Net increase (decrease) in cash and cash equivalents	(117)	1	363	247
Cash and cash equivalents at beginning of period	199	7	856	1,062
Cash and cash equivalents at end of period	$82	$8	$1,219	$1,309

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

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2014, and the Condensed Consolidated Financial Statements and Notes thereto contained in this quarterly report on Form 10-Q.

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "may," "could," "would," "should," "believe," "expect," "anticipate," "plan," "estimate," "target," "project," similar words or expressions. In particular, forward-looking statements contained in this discussion include our expectations regarding: the effect of client trading activity on our results of operations; the effect of changes in interest rates on our net interest spread; amounts of interest on borrowings; our effective income tax rate; and our capital and liquidity needs and our plans to finance such needs.

The Company's actual results could differ materially from those anticipated in such forward-looking statements. Important factors that may cause such differences include, but are not limited to: general economic and political conditions and other securities industry risks; fluctuations in interest rates; stock market fluctuations and changes in client trading activity; credit risk with clients and counterparties; increased competition; systems failures, delays and capacity constraints; network security risks; liquidity risk; new laws and regulations affecting our business; regulatory and legal matters and uncertainties and the other risks and uncertainties set forth under Item 1A. – Risk Factors of the Company's annual report on Form 10-K for the fiscal year ended September 30, 2014. The forward-looking statements contained in this report speak only as of the date on which the statements were made. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise, except to the extent required by the federal securities laws.

The preparation of our financial statements requires us to make judgments and estimates that may have a significant impact upon our financial results. Note 1 of our Notes to Consolidated Financial Statements for the fiscal year ended September 30, 2014, contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions. We believe that the following areas are particularly subject to management's judgments and estimates and could materially affect our results of operations and financial position: valuation of goodwill and acquired intangible assets; estimates of effective income tax rates, uncertain tax positions, deferred income taxes and related valuation allowances; accruals for contingent liabilities; and valuation of guarantees. These areas are discussed in further detail under the heading "Critical Accounting Policies and Estimates" in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2014.

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

GLOSSARY OF TERMS

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

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

Asset-based revenues — Revenues consisting of (1) net interest revenue, (2) insured deposit account fees and (3) investment product fees. The primary factors driving our asset-based revenues are average balances and average rates. Average balances consist primarily of average client margin balances, average segregated cash balances, average client credit balances, average client insured deposit account balances, average fee-based investment balances and average securities borrowing and securities lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances.

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

Average client trades per day — Total trades divided by the number of trading days in the period. This metric is also known as daily average revenue trades (“DARTs”).
Average commissions and transaction fees per trade — Total commissions and transaction fee revenues as reported on the Company’s Consolidated Statements of Income (excluding clearing revenues from TD Waterhouse UK) divided by total trades for the period. Commissions and transaction fee revenues primarily consist of trading commissions, order routing revenue and markups on riskless principal transactions in fixed-income securities.
Basis point — When referring to interest rates, one basis point represents one one-hundredth of one percent.

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Beneficiary accounts — Brokerage accounts managed by a custodian, guardian, conservator or trustee on behalf of one or more beneficiaries. Examples include accounts maintained under the Uniform Gift to Minors Act (UGMA) or Uniform Transfer to Minors Act (UTMA), guardianship, conservatorship and trust arrangements and pension or profit plan for small business accounts.
Brokerage accounts — Accounts maintained by the Company on behalf of clients for securities brokerage activities. The primary types of brokerage accounts are cash accounts, margin accounts, IRA accounts and beneficiary accounts. Futures accounts are sub-accounts associated with a brokerage account for clients who wish to trade futures and/or options on futures.
Cash accounts — Brokerage accounts that do not have margin account approval.
Client assets — The total value of cash and securities in brokerage accounts.
Client cash and money market assets — The sum of all client cash balances, including client credit balances and client cash balances swept into insured deposit accounts or money market mutual funds.
Client credit balances — Client cash held in brokerage accounts, excluding balances generated by client short sales on which no interest is paid. Interest paid on client credit balances is a reduction of net interest revenue. Client credit balances are included in “payable to clients” on our Consolidated Balance Sheets.
Client margin balances — The total amount of cash loaned to clients in margin accounts. Such loans are secured by client assets. Interest earned on client margin balances is a component of net interest revenue. Client margin balances are included in “receivable from clients, net” on our Consolidated Balance Sheets.
Consolidated duration — The weighted average remaining years until maturity of our spread-based assets. For purposes of this calculation, floating rate balances are treated as having a one-month duration. Consolidated duration is used in analyzing our aggregate interest rate sensitivity.
Daily average revenue trades (“DARTs”) — Total trades divided by the number of trading days in the period. This metric is also known as average client trades per day.
EBITDA — EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure. We consider EBITDA to be an important measure of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA is used as the denominator in the consolidated leverage ratio calculation for covenant purposes under our holding company’s senior revolving credit facility. EBITDA eliminates the non-cash effect of tangible asset depreciation and amortization and intangible asset amortization. EBITDA should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.
EPS excluding amortization of intangible assets — Earnings per share (“EPS”) excluding amortization of intangible assets is a non-GAAP financial measure. We define EPS excluding amortization of intangible assets as earnings (loss) per share, adjusted to remove the after-tax effect of amortization of acquired intangible assets. We consider EPS excluding amortization of intangible assets an important measure of our financial performance. Amortization of acquired intangible assets is excluded because we believe it is not indicative of underlying business performance. EPS excluding amortization of intangible assets should be considered in addition to, rather than as a substitute for, GAAP earnings per share.
EPS from ongoing operations — EPS from ongoing operations is a non-GAAP financial measure. We define EPS from ongoing operations as earnings (loss) per share, adjusted to remove any significant unusual gains or charges. We consider EPS from ongoing operations an important measure of the financial performance of our ongoing business. Unusual gains and charges are excluded because we believe they are not likely to be indicative of the ongoing operations of our business. EPS from ongoing operations should be considered in addition to, rather than as a substitute for, GAAP earnings per share.
Fee-based investment balances — Client assets invested in money market mutual funds, other mutual funds and Company programs such as AdvisorDirect® and Amerivest,® on which we earn fee revenues. Fee revenues earned on these balances are included in investment product fees on our Consolidated Statements of Income.
Funded accounts — All open client accounts with a total liquidation value greater than zero.
Futures accounts — Sub-accounts maintained by the Company on behalf of clients for trading in futures and/or options on futures. Each futures account must be associated with a brokerage account. Futures accounts are not counted

separately for purposes of the Company’s client account metrics.

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

Interest-earning assets — Consist of client margin balances, segregated cash, deposits paid on securities borrowing and other cash and interest-earning investment balances.

Interest rate-sensitive assets — Consist of spread-based assets and client cash invested in money market mutual funds.

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

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

Liquid assets – management target — "Liquid assets – management target" is a non-GAAP financial measure. We define "liquid assets – management target" as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments and (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 10% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of a minimum operational target established by management ($50 million in the case of our primary introducing broker-dealer, TD Ameritrade, Inc.). We include the excess capital of our broker-dealer subsidiaries in "liquid assets – management target," rather than simply including broker-dealer cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer subsidiaries to the parent company. Excess capital, as defined under clause (c) above, is generally available for dividend from the broker-dealer subsidiaries to the parent company. "Liquid assets – management target" is based on more conservative measures of broker-dealer net capital than "liquid assets – regulatory threshold" (defined below) because we prefer to maintain significantly more conservative levels of net capital at the broker-dealer subsidiaries than the regulatory thresholds require. We consider "liquid assets – management target" to be a measure that reflects our liquidity that would be readily available for corporate investing and financing activities under normal operating circumstances. "Liquid assets – regulatory threshold" is a related metric that reflects our liquidity that would be available for corporate investing and financing activities under unusual operating circumstances, such as the need to provide funding for significant strategic business transactions. Our liquid assets metrics should be considered as supplemental measures of liquidity, rather than as substitutes for cash and cash equivalents.

Liquid assets – regulatory threshold — "Liquid assets – regulatory threshold" is a non-GAAP financial measure. We define "liquid assets – regulatory threshold" as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments, (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 5% of aggregate debit items and (ii) our introducing broker-dealer and futures commission merchant ("FCM") subsidiaries in excess of the applicable "early warning" net capital requirement and (d) Tier 1 capital of our trust company in excess of the minimum requirement. We include the excess capital of our broker-dealer, FCM and trust company subsidiaries in "liquid assets – regulatory threshold," rather than simply including broker-dealer, FCM and trust company cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer, FCM and trust company subsidiaries to the parent company. Excess capital, as defined under clauses (c) and (d) above, is generally available for dividend from the broker-dealer, FCM and trust company subsidiaries to the parent company. We consider "liquid assets – regulatory threshold" to be a measure that reflects our liquidity that would be available for corporate investing and financing activities under unusual operating circumstances, such as the need to provide funding for significant strategic business transactions. "Liquid assets – management target" is a related metric that reflects our liquidity that would be readily available for corporate investing and financing activities under normal operating circumstances. Our liquid assets metrics should be considered as supplemental measures of liquidity, rather than as substitutes for cash and cash equivalents.

Liquidation value — The net value of a client's account holdings as of the close of a regular trading session. Liquidation value includes client cash and the value of long security positions, less margin balances and the cost to buy back short security positions. It also includes the value of open futures, foreign exchange and options positions.

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

Market fee-based investment balances — Client assets invested in mutual funds (except money market funds) and Company programs such as AdvisorDirect® and Amerivest,® on which we earn fee revenues that are largely based on a percentage of the market value of the investment. Market fee-based investment balances are a component of fee-based investment balances. Fee revenues earned on these balances are included in investment product fees on our Consolidated Statements of Income.

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Net interest margin (“NIM”) — A measure of the net yield on our average spread-based assets. Net interest margin is calculated for a given period by dividing the annualized sum of net interest revenue and insured deposit account fees by average spread-based assets.

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

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

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

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

Order routing revenue — Revenues generated from revenue-sharing arrangements with market destinations (also referred to as “payment for order flow”). Order routing revenue is a component of transaction-based revenues.

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

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

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

Spread-based assets — Client and brokerage-related asset balances, consisting of interest-earning assets and insured deposit account balances. Spread-based assets is used in the calculation of our net interest margin and our consolidated duration.

Total trades — Revenue-generating client securities trades, which are executed by the Company’s broker-dealer subsidiaries, excluding trades processed for TD Waterhouse UK. Total trades are a significant source of the Company’s revenues. Such trades include, but are not limited to, trades in equities, options, futures, foreign exchange, mutual funds and debt instruments. Trades generate revenue from commissions, markups on riskless principal transactions in fixed income securities, transaction fees and/or order routing revenue.

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

Transaction-based revenues — Revenues generated from client trade execution, consisting primarily of commissions, markups on riskless principal transactions in fixed income securities, transaction clearing fees and order routing revenue.

RESULTS OF OPERATIONS

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

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

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larger net interest spread. Conversely, a falling interest rate environment generally would result in our earning a smaller net interest spread.

Financial Performance Metrics

Pre-tax income, net income, earnings per share and EBITDA are key metrics we use in evaluating our financial performance. EBITDA is a non-GAAP financial measure.

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

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

	Three months ended December 31,			
	2014		2013	
	$	% of Net Revenues	$	% of Net Revenues
EBITDA	$389	47.5 %	$354	47.1 %
Less:				
Depreciation and amortization	(23)	(2.8)%	(24)	(3.2)%
Amortization of acquired intangible assets	(23)	(2.8)%	(23)	(3.1)%
Interest on borrowings	(9)	(1.1)%	(6)	(0.8)%
Provision for income taxes	(123)	(15.0)%	(109)	(14.5)%
Net income	$211	25.8 %	$192	25.5 %

Our EBITDA increased 10% for the first quarter of fiscal 2015 compared to the first quarter of fiscal 2014, primarily due to a 9% increase in net revenues, partially offset by an 8% increase in operating expenses excluding depreciation and amortization during the first quarter of fiscal 2015. Detailed analysis of net revenues and operating expenses is presented later in this discussion.

Our diluted earnings per share was $0.39 for the first quarter of fiscal 2015 compared to $0.35 for the first quarter of fiscal 2014. Higher EBITDA for the first quarter of fiscal 2015 contributed to a 10% increase in net income compared to the first quarter of fiscal 2014.

Operating Metrics

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For the first quarter of fiscal 2015, asset-based revenues and transaction-based revenues accounted for 55% and 44% of our net revenues, respectively. Asset-based revenues consist of (1) net interest revenue, (2) insured deposit account fees and (3) investment product fees. The primary factors driving our asset-based revenues are average balances and average rates. Average balances consist primarily of average client margin balances, average segregated cash balances, average client credit balances, average client insured deposit account balances, average fee-based investment balances and average securities borrowing and lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances. The primary factors driving our transaction-based revenues are total client trades and average commissions and transaction fees per trade. We also consider client account and client asset metrics, although we believe they are generally of less significance to our results of operations for any particular period than our metrics for asset-based and transaction-based revenues.

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Asset-Based Revenue Metrics

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

	Three months ended December 31,		Increase/ (Decrease)
	2014	2013	
Average interest-earning assets	$19,491	$17,612	$1,879
Average insured deposit account balances	74,966	72,674	2,292
Average spread-based balances	$94,457	$90,286	$4,171
Net interest revenue	$161	$127	$34
Insured deposit account fee revenue	207	208	(1)
Spread-based revenue	$368	$335	$33
Avg. annualized yield—interest-earning assets	3.23%	2.81%	0.42%
Avg. annualized yield—insured deposit account fees	1.08%	1.12%	(0.04)%
Net interest margin (NIM)	1.53%	1.45%	0.08%

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

	Interest Revenue (Expense) Three months ended December 31,		Increase/ (Decrease)
	2014	2013	
Segregated cash	$2	$2	$—
Client margin balances	108	93	15
Securities lending/borrowing, net	51	32	19
Other cash and interest-earning investments	—	—	—
Client credit balances	—	—	—
Net interest revenue	$161	$127	$34

	Average Balance Three months ended December 31,		% Change
	2014	2013	
Segregated cash	$5,277	$5,421	(3)%
Client margin balances	11,458	9,315	23%
Securities borrowing	913	1,184	(23)%
Other cash and interest-earning investments	1,843	1,692	9%
Interest-earning assets	$19,491	$17,612	11%
Client credit balances	$12,244	$10,698	14%
Securities lending	2,253	2,217	2%
Interest-bearing liabilities	$14,497	$12,915	12%

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	Avg. Annualized Yield (Cost) Three months ended December 31, 2014	2013	Net Yield Increase/ (Decrease)
Segregated cash	0.13 %	0.11 %	0.02 %
Client margin balances	3.69 %	3.92 %	(0.23)%
Other cash and interest-earning investments	0.05 %	0.07 %	(0.02)%
Client credit balances	(0.01)%	(0.01)%	0.00 %
Net interest revenue	3.23 %	2.81 %	0.42 %

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

	Fee Revenue Three months ended December 31, 2014	2013	Increase/ (Decrease)
Money market mutual fund	$—	$—	$—
Market fee-based investment balances	83	72	11
Total investment product fees	$83	$72	$11

	Average Balance Three months ended December 31, 2014	2013	% Change
Money market mutual fund	$5,585	$5,288	6 %
Market fee-based investment balances	145,139	125,198	16 %
Total fee-based investment balances	$150,724	$130,486	16 %

	Average Annualized Yield Three months ended December 31, 2014	2013	Increase/ (Decrease)
Money market mutual fund	0.00 %	0.00 %	0.00 %
Market fee-based investment balances	0.22 %	0.22 %	0.00 %
Total investment product fees	0.22 %	0.22 %	0.00 %

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Transaction-Based Revenue Metrics

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

	Three months ended December 31, 2014	2013	% Change
Total trades (in millions)	28.81	26.07	11 %
Average client trades per day	457,243	413,743	11 %
Average client trades per funded account (annualized)	18.1	17.2	5 %
Activity rate—funded accounts	7.2 %	6.9 %	4 %
Trading days	63.0	63.0	0 %
Average commissions and transaction fees per trade [1]	$12.45	$12.56	(1)%
Order routing revenue (in millions)	$77	$71	8 %
Average order routing revenue per trade [2]	$2.69	$2.72	(1)%

(1) Average commissions and transaction fees per trade excludes the TD Waterhouse UK business.
(2) Average order routing revenue per trade is included in average commissions and transaction fees per trade.

Client Account and Client Asset Metrics

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

	Three months ended December 31, 2014	2013	% Change
Funded accounts (beginning of period)	6,301,000	5,993,000	5 %
Funded accounts (end of period)	6,371,000	6,048,000	5 %
Percentage change during period	1 %	1 %	
Client assets (beginning of period, in billions)	$653.1	$555.9	17 %
Client assets (end of period, in billions)	$672.4	$596.5	13 %
Percentage change during period	3 %	7 %	
Net new assets (in billions)	$18.8	$14.5	30 %
Net new assets annualized growth rate	11 %	10 %	

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Condensed Consolidated Statements of Income Data

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

	Three months ended December 31, 2014	2013	% Change
Revenues:			
Transaction-based revenues:			
Commissions and transaction fees	$359	$328	9 %
Asset-based revenues:			
Interest revenue	163	128	27 %
Brokerage interest expense	(2)	(1)	100 %
Net interest revenue	161	127	27 %
Insured deposit account fees	207	208	(0)%
Investment product fees	83	72	15 %
Total asset-based revenues	451	407	11 %
Other revenues	9	17	(47)%
Net revenues	819	752	9 %
Operating expenses:			
Employee compensation and benefits	199	183	9 %
Clearing and execution costs	35	30	17 %
Communications	31	28	11 %
Occupancy and equipment costs	41	37	11 %
Depreciation and amortization	23	24	(4)%
Amortization of acquired intangible assets	23	23	0 %
Professional services	37	38	(3)%
Advertising	64	63	2 %
Other	22	19	16 %
Total operating expenses	475	445	7 %
Operating income	344	307	12 %
Other expense:			
Interest on borrowings	9	6	50 %
Other	1	—	N/A
Total other expense	10	6	67 %
Pre-tax income	334	301	11 %
Provision for income taxes	123	109	13 %
Net income	$211	$192	10 %
Other information:			
Effective income tax rate	36.8 %	36.2 %	
Average debt outstanding	$1,416	$1,031	37 %
Effective interest rate incurred on borrowings	2.57 %	2.28 %	

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Three-Month Periods Ended December 31, 2014 and 2013

Net Revenues

Commissions and transaction fees increased 9% to $359 million, primarily due to increased client trading activity, partially offset by slightly lower average commissions and transaction fees per trade. Average client trades per day increased 11% to 457,243 for the first quarter of fiscal 2015 compared to 413,743 for the first quarter of the prior year. Average client trades per funded account (annualized) were 18.1 for the first quarter of fiscal 2015 compared to 17.2 for the first quarter of the prior year. Average commissions and transaction fees per trade decreased slightly to $12.45 for the first quarter of fiscal 2015 from $12.56 for the first quarter of the prior year, primarily due to a higher percentage of futures trades, which earn somewhat lower average commissions and transaction fees per trade and do not generate order routing revenue, and a lower percentage of option trades, which earn higher average commissions and transaction fees per trade, including order routing revenue.

Asset-based revenues, which consists of net interest revenue, insured deposit account fees and investment product fees, increased 11% to $451 million for the first quarter of fiscal 2015, primarily due to a 5% increase in average spread-based assets, a 16% increase in average market fee-based investment balances and increased net interest revenue from our securities borrowing/lending program. Our net interest margin was 1.53% for the first quarter of fiscal 2015, compared to 1.45% for the first quarter of the prior year, as increased net interest revenue from our securities borrowing/lending program and the impact of higher average client margin balances were partially offset by lower average yields earned on client margin and insured deposit account balances. The following paragraphs provide further analysis of the components of asset-based revenues.

Net interest revenue increased 27% to $161 million, due primarily to a $19 million increase in net interest revenue from our securities borrowing/lending program and a 23% increase in average client margin balances, partially offset by a decrease of 23 basis points in the average yield earned on client margin balances.

Insured deposit account fees decreased slightly to $207 million, primarily due to a decrease of 4 basis points in the average yield earned on the IDA assets, mostly offset by a 3% increase in average client IDA balances. The increased IDA balances are mostly due to our success in attracting net new client assets. For more information about the IDA agreement, please see Note 12 – RELATED PARTY TRANSACTIONS under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

Investment product fees increased 15% to $83 million, due to a 16% increase in average market fee-based investment balances.

Other revenues decreased 47% to $9 million, primarily due to lower client education revenue, lower fees from processing corporate securities reorganizations and unfavorable fair market value adjustments to U.S. government debt securities held for investment purposes by our broker-dealer subsidiaries.

Operating Expenses

Employee compensation and benefits expense increased 9% to $199 million, primarily due to an increase in average headcount related to strategic growth initiatives and higher incentive-based compensation related to Company and individual performance. The average number of full-time equivalent employees increased to 5,817 for the first quarter of fiscal 2015 compared to 5,455 for the first quarter of the prior year.

Clearing and execution costs increased 17% to $35 million, primarily due to higher client trading volumes and fee increases by the Options Clearing Corporation that became effective April 1, 2014.

Communications expense increased 11% to $31 million, primarily due to higher client trading volumes resulting in increased costs for quotes and market information.

Occupancy and equipment costs increased 11% to $41 million, primarily due to upgrades to our technology infrastructure.

Advertising expense increased 2% to $64 million. We generally adjust our level of advertising spending in relation to stock market activity and other market conditions in an effort to maximize the number of new accounts while minimizing the advertising cost per new account. We find trading volumes in the stock market to be an effective indicator of self-directed investor engagement. When self-directed investors are actively engaged in the stock market, we tend to experience more success with our advertising, resulting in a lower cost per new account. We also find that self-directed investors tend to demonstrate more interest in financial products and services during certain times of the year, such as in the months immediately preceding the annual April tax filing deadline, and less interest during certain other times, such as the summer months. In addition, in periods when advertising market demand is weak, we may adjust our spending to take advantage of attractive advertising rates.

Other operating expenses increased 16% to $22 million, primarily due to increased litigation and arbitration, bad debt and travel expenses. These increases were partially offset by a $3 million recovery of money market funds from the final distribution of The Reserve Primary Fund during the first quarter of fiscal 2015.

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Other Expenses and Income Taxes

Interest on borrowings increased 50% to $9 million, primarily due to our debt refinancing during the first quarter of fiscal 2015, the timing of which contributed to a 37% increase in average debt outstanding. On October 17, 2014, we issued $500 million of 3.625% Senior Notes due April 1, 2025, for purposes of refinancing our $500 million of 4.150% Senior Notes due December 1, 2014. We expect interest on borrowings to average approximately $8 million per quarter for the remainder of fiscal 2015.

Our effective income tax rate was 36.8% for the first quarter of fiscal 2015, compared to 36.2% for the first quarter of the prior year. The effective income tax rate for the first quarter of fiscal 2015 was lower than normal primarily due to $6 million of favorable resolutions of state income tax matters. This favorably impacted our earnings for the first quarter of fiscal 2015 by approximately one cent per share. The effective income tax rate for the first quarter of the prior year was lower than normal primarily due to $9 million of favorable resolutions of state income tax matters, partially offset by $2 million of unfavorable deferred income tax adjustments resulting from state income tax law changes. These items had a net favorable impact our earnings for the first quarter of the prior year by approximately one cent per share. We expect our effective income tax rate to range from 38% to 39% for the remainder of fiscal 2015, excluding the effect of any adjustments related to remeasurement or resolution of uncertain tax positions. However, we expect to experience some volatility in our quarterly and annual effective income tax rate because current accounting rules for uncertain tax positions require that any change in measurement of a tax position taken in a prior tax year be recognized as a discrete event in the period in which the change occurs.

LIQUIDITY AND CAPITAL RESOURCES

As a holding company, TD Ameritrade Holding Corporation conducts substantially all of its business through its operating subsidiaries, principally its broker-dealer subsidiaries.

We have historically financed our liquidity and capital needs primarily through the use of funds generated from subsidiary operations and from borrowings under our credit agreements. We have also issued common stock and long-term debt to finance mergers and acquisitions and for other corporate purposes. Our liquidity needs during the first quarter of fiscal 2015 were financed primarily from our subsidiaries' earnings, cash on hand and borrowings. As of December 31, 2014, we had $113 million of borrowings outstanding under the parent company's revolving credit facility. We currently expect to repay the outstanding borrowings on our parent company's revolving credit facility during fiscal 2015; however, we may alter our plans if other capital or liquidity needs arise. We plan to finance our capital and liquidity needs during the remainder of fiscal 2015 primarily from our subsidiaries' earnings, cash on hand and borrowings.

On October 17, 2014, we sold, through a public offering, $500 million aggregate principal amount of unsecured 3.625% Senior Notes due April 1, 2025. We used the net proceeds from the issuance of the 3.625% Senior Notes, together with cash on hand, to repay in full the $500 million of outstanding principal under our 4.150% Senior Notes that matured on December 1, 2014.

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

Broker-dealer Subsidiaries

Our broker-dealer subsidiaries are subject to regulatory requirements that are intended to ensure their liquidity and general financial soundness. Under the SEC's Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934, or the "Exchange Act"), 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 our clearing broker-dealer subsidiary, this minimum net capital level is determined by a calculation described in Rule 15c3-1 that is primarily based on the broker-dealer's "aggregate debits," which primarily are a function of client margin balances at the clearing broker-dealer. 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 our broker-dealer subsidiaries, if necessary, to meet minimum net capital requirements.

Each of our broker-dealer subsidiaries may not repay any subordinated borrowings, pay cash dividends or make any unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of (a) less than 5% of aggregate debit balances, (b) less than 110% of its risk-based capital requirement under CFTC Regulation 1.17 or (c) less than 120% of its minimum dollar requirement. These net capital thresholds, which are specified in Rule 17a-11 under the Exchange Act and CFTC Regulation 1.12, are typically referred to as “early warning” net capital thresholds. As of December 31, 2014, our clearing and introducing broker-dealer subsidiaries had $1,552 million and $263 million of net capital, respectively, which exceeded the early warning net capital thresholds by $856 million and $251 million, respectively.

Our clearing broker-dealer subsidiary, TD Ameritrade Clearing, Inc. (“TDAC”), engages in activities such as settling client securities transactions with clearinghouses, extending credit to clients through margin lending, securities lending and borrowing transactions and processing client cash sweep transactions to and from insured deposit accounts and money market mutual funds. These types of broker-dealer activities require active daily liquidity management.

Most of TDAC’s assets are readily convertible to cash, consisting primarily of cash and investments segregated for the exclusive benefit of clients, receivables from clients and receivables from brokers, dealers and clearing organizations. Cash and investments segregated for the exclusive benefit of clients may be held in cash, reverse repurchase agreements (collateralized by U.S. Treasury securities), U.S. Treasury securities and other qualified securities. Receivables from clients consist of margin loans, which are demand loan obligations secured by readily marketable securities. Receivables from brokers, dealers and clearing organizations primarily arise from current open transactions, which usually settle or can be settled within a few business days.

TDAC is subject to cash deposit and collateral requirements with clearinghouses such as the Depository Trust & Clearing Corporation (“DTCC”) and the Options Clearing Corporation (“OCC”), which may fluctuate significantly from time to time based on the nature and size of our clients’ trading activity. TDAC had $454 million and $284 million of cash and investments deposited with clearing organizations for the clearing of client equity and option trades as of December 31, 2014 and September 30, 2014, respectively.

TDAC’s liquidity needs relating to client trading and margin borrowing are met primarily through cash balances in client brokerage accounts, which were $14.7 billion and $14.2 billion as of December 31, 2014 and September 30, 2014, respectively. Cash balances in client brokerage accounts not used for client trading and margin borrowing activity are not generally available for other liquidity purposes and must be segregated for the exclusive benefit of clients under Rule 15c3-3 of the Exchange Act. TDAC had $4.3 billion and $4.8 billion of cash and investments segregated in special reserve bank accounts for the exclusive benefit of clients under Rule 15c3-3 as of December 31, 2014 and September 30, 2014, respectively.

For general liquidity needs, TDAC also maintains a senior unsecured revolving credit facility in an aggregate principal amount of $300 million. There were no borrowings outstanding on this facility as of December 31, 2014 and September 30, 2014.

Liquid Assets

We consider our liquid assets metrics to be important measures of our liquidity and of our ability to fund corporate investing and financing activities. Our liquid assets metrics are considered non-GAAP financial measures. We include the excess capital of our broker-dealer, FCM and trust company subsidiaries in the calculation of our liquid assets metrics, rather than simply including broker-dealer, FCM and trust company cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer, FCM and trust company subsidiaries to the parent company. Excess capital, as defined below, is generally available for dividend from the broker-dealer, FCM and trust company subsidiaries to the parent company. The liquid assets metrics should be considered as supplemental measures of liquidity, rather than as substitutes for cash and cash equivalents.

We define “liquid assets – management target” as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments and (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 10% of aggregate debit items and (ii) our introducing broker-dealer subsidiaries in excess of a minimum operational target established by management ($50 million in the case of our primary introducing broker-dealer, TD Ameritrade, Inc.). “Liquid assets – management target” is based on more conservative measures of broker-dealer net capital than “liquid assets – regulatory threshold” (defined below) because we prefer to maintain significantly more conservative levels of net capital at the broker-dealer subsidiaries than the regulatory thresholds require. We consider “liquid assets – management target” to be a measure that reflects our liquidity that would be readily available for corporate investing or financing activities under normal operating circumstances.

We define “liquid assets – regulatory threshold” as the sum of (a) corporate cash and cash equivalents, (b) corporate short-term investments, (c) regulatory net capital of (i) our clearing broker-dealer subsidiary in excess of 5% of aggregate debit items and (ii) our introducing broker-dealer and FCM subsidiaries in excess of the applicable “early warning” net capital requirement and (d) Tier 1 capital of our trust company in excess of the minimum requirement.

For more information about the regulatory capital requirements of our broker-dealer, FCM and trust subsidiaries, please see Note 6 – CAPITAL REQUIREMENTS under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements. We consider “liquid assets – regulatory threshold” to be a measure that reflects our liquidity that would be available for corporate investing or financing activities under unusual operating circumstances, such as the need to provide funding for significant strategic business transactions.

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

	Liquid Assets - Management Target			Liquid Assets - Regulatory Threshold		
	Dec. 31, 2014	Sept. 30, 2014	Change	Dec. 31, 2014	Sept. 30, 2014	Change
Cash and cash equivalents	$1,877	$1,460	$417	$1,877	$1,460	$417
Less: Broker-dealer cash and cash equivalents	(1,434)	(1,090)	(344)	(1,434)	(1,090)	(344)
FCM cash and cash equivalents	(2)	—	(2)	(2)	—	(2)
Trust company cash and cash equivalents	(55)	(53)	(2)	(55)	(53)	(2)
Investment advisory cash and cash equivalents	(28)	(19)	(9)	(28)	(19)	(9)
Corporate cash and cash equivalents	358	298	60	358	298	60
Plus: Excess trust company Tier 1 capital	—	—	—	13	12	1
Excess broker-dealer regulatory net capital	373	464	(91)	1,107	1,196	(89)
Liquid assets	$731	$762	$(31)	$1,478	$1,506	$(28)

The changes in liquid assets are summarized as follows (dollars in millions):

	Liquid Assets Management Target	Regulatory Threshold
Liquid assets as of September 30, 2014	$762	$1,506
Plus: EBITDA (1)	389	389
Proceeds from issuance of long-term debt	500	500
Proceeds from exercise of stock options	11	11
Proceeds from the sale of investments	1	1
Other investing activities	3	3
Reduction of net capital requirements due to decrease in aggregate debits	9	5
Less: Income taxes paid	(132)	(132)
Interest paid	(8)	(8)
Purchase of property and equipment	(21)	(21)
Principal payments on long-term debt	(500)	(500)
Principal payments on notes payable	(37)	(37)
Payment of cash dividends	(82)	(82)
Purchase of treasury stock	(136)	(136)
Payment of debt issuance costs	(5)	(5)
Other changes in working capital and regulatory net capital	(23)	(16)
Liquid assets as of December 31, 2014	$731	$1,478

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

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Loan Facilities

Senior Notes – On October 17, 2014, we sold, through a public offering, $500 million aggregate principal amount of unsecured 3.625% Senior Notes due April 1, 2025 (the “2025 Notes”). Interest on the 2025 Notes will be payable in arrears semi-annually on April 1 and October 1 of each year. We used the net proceeds from the issuance of the 2025 Notes, together with cash on hand, to repay in full the $500 million of outstanding principal under the 4.150% Senior Notes (the “2014 Notes”) that matured on December 1, 2014.

Fair Value Hedging – On November 19, 2014, we entered into a fixed-for-variable interest rate swap on the 2025 Notes for a notional amount of $500 million, with a maturity date matching the maturity date of the 2025 Notes. Under the terms of this interest rate swap agreement, we receive semi-annual fixed-rate interest payments based on the same rate applicable to the 2025 Notes, and make quarterly variable-rate interest payments based on three-month LIBOR plus 1.1022%. For more information regarding the fixed-for-variable interest rate swaps on each of our Senior Notes, see Note 5 – NOTES PAYABLE AND LONG-TERM DEBT – Fair Value Hedging under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

Stock Repurchase Program

On October 20, 2011, our board of directors authorized the repurchase of up to 30 million shares of our common stock. During the first quarter of fiscal 2015, we repurchased approximately 3.7 million shares at a weighted average purchase price of $32.39 per share. From the inception of this stock repurchase authorization through December 31, 2014, we have repurchased approximately 14.8 million shares at a weighted average purchase price of $26.84 per share. As of December 31, 2014, we had approximately 15.2 million shares remaining on the stock repurchase authorization.

Cash Dividends

We declared a $0.15 per share quarterly cash dividend on our common stock during each of the first and second quarters of fiscal 2015. On November 20, 2014, we paid $82 million to fund the first quarter dividend and we expect to pay approximately $82 million on February 18, 2015 to fund the second quarter dividend.

CONTRACTUAL OBLIGATIONS

The following item constitutes a material change in our contractual obligations outside the ordinary course of business since September 30, 2014:

During the first quarter of fiscal 2015, we refinanced our $500 million of 4.150% Senior Notes that matured on December 1, 2014 by issuing $500 million of 3.625% Senior Notes due April 1, 2025.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into guarantees and other off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients and manage our asset-based revenues. For information on these arrangements, see the following sections under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements: “General Contingencies” and “Guarantees” under Note 7 – COMMITMENTS AND CONTINGENCIES and “Insured Deposit Account Agreement” under Note 12 – RELATED PARTY TRANSACTIONS. The IDA agreement accounts for a significant percentage of our net revenues (25% of our net revenues for the three months ended December 31, 2014) and enables our clients to invest in an FDIC-insured deposit product without the need for the Company to establish the significant levels of capital that would be required to maintain our own bank charter.

WEBSITE AND SOCIAL MEDIA DISCLOSURE

From time to time, the Company may use its website and/or Twitter as distribution channels of material information. Financial and other important information regarding the Company is routinely accessible through and posted on the Company’s website at www.amtd.com and its Twitter account @TDAmeritradePR. We ask that interested parties visit or subscribe to newsfeeds at www.amtd.com/newsroom to automatically receive email alerts and other information, including the most up-to-date corporate financial information, presentation announcements, transcripts and archives. The website to access the Company’s Twitter account is https://twitter.com/TDAmeritrade. Website links provided in this report, although correct when published, may change in the future. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC.

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Item 3. – Quantitative and Qualitative Disclosures About Market Risk

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

Market-related Credit Risk

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

We are party to interest rate swaps related to our long-term debt, which are subject to counterparty credit risk. Credit risk on derivative financial instruments is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold and by entering into credit support agreements, or by utilizing approved central clearing counterparties registered with the Commodity Futures Trading Commission. Our interest rate swaps require daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps.

Interest Rate Risk

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

Our most prevalent form of interest rate risk is referred to as “gap” risk. This risk occurs when the interest rates we earn on our assets change at a different frequency or amount than the interest rates we pay on our liabilities. For example, in the current low interest rate environment, sharp increases in short-term interest rates could result in net interest spread compression if the yields paid on interest-bearing client balances were to increase faster than our earnings on interest-earning assets. 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 currently seek to maintain a consolidated duration of interest-sensitive assets, including IDA assets, within a range of 1.75 to 2.75 years. As of December 31, 2014, our consolidated duration was 2.2 years. We have an Asset/Liability Committee as the governance body with the responsibility of managing interest rate risk, including gap risk.

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

The simulations assume that the asset and liability structure of our Condensed Consolidated Balance Sheet and the insured deposit account arrangement would not be changed as a result of a simulated change in interest rates. The results of the simulations based on our financial position as of December 31, 2014 indicate that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in a range of approximately $109 million to $182 million higher pre-tax income, depending largely on the extent and timing of possible increases in payment rates on client cash balances. A gradual 1% (100 basis points) decrease in interest rates over a 12-month period would result in approximately $21 million lower pre-tax income. The results of the simulations reflect the fact that short-term interest rates remain at historically low levels, including the federal funds target rate, which is currently a range of zero to 0.25%.

Other Market Risks

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

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Item 4. – Controls and Procedures

Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2014. Management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2014.

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

For information regarding legal proceedings, see Note 7 – COMMITMENTS AND CONTINGENCIES – "Legal and Regulatory Matters" under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

Item 1A. – Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Item 1A— "Risk Factors" in our annual report on Form 10-K for the year ended September 30, 2014, which could materially affect our business, financial condition or future results of operations. The risks described in our Form 10 K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

There have been no material changes from the risk factors disclosed in the Company's Form 10-K for the fiscal year ended September 30, 2014.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
October 1, 2014 – October 31, 2014	2,715,304	$31.40	2,486,860	16,389,511
November 1, 2014 – November 30, 2014	1,006,900	$34.52	846,003	15,543,508
December 1, 2014 – December 31, 2014	455,464	$34.57	318,614	15,224,894
Total – Three months ended December 31, 2014	4,177,668	$32.50	3,651,477	15,224,894

On October 20, 2011, our board of directors authorized the repurchase of up to 30 million shares of our common stock. We disclosed this authorization on November 18, 2011 in our annual report on Form 10-K. This program was the only stock repurchase program in effect and no programs expired during the first quarter of fiscal 2015.

During the quarter ended December 31, 2014, 526,191 shares were repurchased from employees for income tax withholding in connection with distributions of stock-based compensation.

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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 February 12, 2014 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on February 19, 2014)
4.1	Form of Certificate for Common Stock (incorporated by reference to Exhibit 4.1 of the Company's Form 8-A filed on September 5, 2002)
4.2	First Supplemental Indenture, dated November 25, 2009, among TD Ameritrade Holding Corporation, TD Ameritrade Online Holdings Corp., as guarantor, and The Bank of New York Mellon Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on November 25, 2009)
4.3	Form of 4.150% Senior Note due 2014 (included in Exhibit 4.2)
4.4	Form of 5.600% Senior Note due 2019 (included in Exhibit 4.2)
4.5	Indenture, dated October 22, 2014, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on October 23, 2014)
4.6	Form of 3.625% Senior Note due 2025 (included in Exhibit 4.5)
4.7	Supplemental Indenture, dated October 22, 2014, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Company's Form 8-K filed on October 23, 2014)
10.1	Form of Indemnification Agreement between TD Ameritrade Holding Corporation and members of the Company's board of directors (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on November 26, 2014)
10.2	Consulting and Release of Claims Agreement, dated January 15, 2015, between William J. Gerber and TD Ameritrade Holding Corporation
15.1	Awareness Letter of Independent Registered Public Accounting Firm
31.1	Certification of Fredric J. Tomczyk, Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
31.2	Certification of William J. Gerber, Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes - Oxley Act of 2002

32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Label
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

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Signatures

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

Dated: February 5, 2015

TD Ameritrade Holding Corporation
(Registrant)

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

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