

STATEMENT OF FINANCIAL CONDITION

TD AMERITRADE Clearing, Inc.  
(A Wholly Owned Subsidiary of TD AMERITRADE Holding Corporation)

March 31, 2008  
(Unaudited)

TD AMERITRADE Clearing, Inc.  
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Statement of Financial Condition

March 31, 2008

*(In Thousands, Except Share and Per Share Amounts)*  
*(Unaudited)*

**Assets**

Cash and cash equivalents	\$ 61,563
Securities borrowed	4,767,369
Receivable from brokers, dealers, and clearing organizations	266,011
Receivable from clients – net of allowance for doubtful accounts of \$20,380	7,522,367
Receivable from affiliates	88,575
Securities owned, at fair value	5,111
Other receivables	65,606
Other assets	2,559
Deferred income taxes, net	19,677
Total assets	<u><u>\$ 12,798,838</u></u>

**Liabilities and stockholder's equity**

Liabilities:

Payable to brokers, dealers, and clearing organizations	\$ 77,919
Payable to clients	5,059,346
Securities loaned	6,566,124
Accounts payable and accrued liabilities	145,559
Securities sold, not yet purchased, at fair value	6,223
Payable to affiliates	29,916
Total liabilities	<u><u>11,885,087</u></u>

Stockholder's equity:

Common stock, \$10 par value, 20,000 shares authorized; 9,947 shares issued and outstanding	99
Additional paid-in capital	507,840
Retained earnings	405,812
Total stockholder's equity	<u>913,751</u>
Total liabilities and stockholder's equity	<u><u>\$ 12,798,838</u></u>

*See accompanying notes.*

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Notes to Statement of Financial Condition  
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## **1. Basis of Presentation and Nature of Operations**

### **Basis of Presentation**

TD AMERITRADE Clearing, Inc. (the Company) is a wholly owned subsidiary of TD AMERITRADE Holding Corporation (the Parent). The Company's fiscal year ends on September 30.

### **Nature of Operations**

The Company is a securities broker-dealer that provides trade execution and clearing services to TD AMERITRADE, Inc. (TDA Inc.), a wholly owned subsidiary of the Parent. The Company is required to comply with all applicable rules and regulations of the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and the various securities exchanges in which it maintains membership.

## **2. Significant Accounting Policies**

### **Use of Estimates**

The preparation of the statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

The Company considers temporary, highly liquid investments with an original maturity of three months or less to be cash equivalents, except for amounts required to be segregated in compliance with federal and other regulations.

### **Securities Borrowed and Securities Loaned**

Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to provide the counterparty with collateral in the form of cash. The Company receives collateral in the form of cash for securities loaned transactions. The related interest receivable from and the brokerage interest payable to broker-dealers are included in other receivables and in accounts payable and accrued liabilities, respectively, in the statement of financial condition.

TD AMERITRADE Clearing, Inc.  
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Notes to Statement of Financial Condition (continued)

**Securities Owned and Securities Sold, Not Yet Purchased**

Securities owned and securities sold, not yet purchased are carried at fair value.

**Securities Transactions**

Client securities transactions are recorded on a settlement date basis, with such transactions generally settling three business days after the trade date. Securities owned by clients, including those that collateralize margin or similar transactions, are not reflected in the accompanying statement of financial condition.

**Fair Value of Financial Instruments**

The Company considers the amounts presented for financial instruments on the statement of financial condition to be reasonable estimates of fair value based on maturity dates, repricing characteristics, and quoted market prices, where applicable.

**Income Taxes**

The Company files a consolidated U.S. income tax return with the Parent on a calendar year basis, combined returns for state tax purposes where required, and separate state income tax returns where required. The Company determines and records income taxes as if it were a separate taxpayer, pursuant to a tax sharing agreement with the Parent. Deferred tax assets and liabilities are determined based on the difference between the statement of financial condition carrying amounts and tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. Accruals for uncertain tax positions are recorded in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). On October 1, 2007, the Company adopted FIN 48, which prescribes a recognition threshold and measurement approach for a tax position taken or expected to be taken in a tax return when there is uncertainty about whether that tax position will ultimately be sustained. The cumulative effect of adopting FIN 48 was a \$16.3 million reduction to the beginning balance of retained earnings as of October 1, 2007. For additional information regarding the adoption of FIN 48, see Note 4 – Income Taxes.

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Notes to Statement of Financial Condition (continued)

**3. Receivable From and Payable to Brokers, Dealers, and Clearing Organizations**

Amounts receivable from and payable to brokers, dealers, and clearing organizations are comprised of the following (in thousands):

Receivable:	
Securities failed to deliver	\$ 35,383
Clearing organizations	214,094
Other broker-dealer receivables	<u>16,534</u>
Total	<u><u>\$ 266,011</u></u>
Payable:	
Securities failed to receive	\$ 37,369
Clearing organizations	31,553
Other broker-dealer payables	<u>8,997</u>
Total	<u><u>\$ 77,919</u></u>

**4. Income Taxes**

As of March 31, 2008, temporary differences between the statement of financial condition carrying amounts and tax bases of assets and liabilities arise from unrecognized state tax benefits, allowance for doubtful accounts, stock-based compensation, prepaid expenses, and certain accrued liabilities.

Deferred income taxes consist of the following as of March 31, 2008 (in thousands):

Deferred tax assets	\$ 20,283
Deferred tax liabilities	<u>(606)</u>
Net deferred tax assets	<u><u>\$ 19,677</u></u>

The Company did not record a valuation allowance against its deferred tax assets as of March 31, 2008.

Effective October 1, 2007, the Company adopted FIN 48. The cumulative effect of adopting FIN 48 was a \$16.3 million reduction to the beginning balance of retained earnings as of October 1, 2007. The total amount of gross unrecognized tax benefits as of October 1, 2007 was \$30.7 million (\$20.0 million net of the federal benefit on state matters). Upon the adoption of FIN 48 on October 1, 2007, the Company had accrued \$4.1 million for potential interest on income tax matters.

The Company's income tax returns are subject to review and examination by federal, state and local taxing authorities. The federal returns for 2004 through 2006 remain open under the statute

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Notes to Statement of Financial Condition (continued)

of limitations and subject to examination. The years open to examination by state and local government authorities vary by jurisdiction, but the statute of limitations is generally three to four years from the date the tax return is filed.

## **5. Net Capital**

The Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 under the Exchange Act), which requires the maintenance of minimum net capital, as defined. Net capital and the related net capital requirement may fluctuate on a daily basis. The Company has elected to use the alternate method permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital of the greater of \$1.5 million or 2% of aggregate debit balances arising from client transactions, as defined. At March 31, 2008, the Company had net capital of \$781.1 million, which was \$613.0 million in excess of the required net capital of \$168.1 million. The Company's ratio of net capital to aggregate debit items was approximately 9.3%. Under the alternate method, a broker-dealer may not repay subordinated borrowings, pay cash dividends, or make any unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar net capital requirement.

Advances to affiliates, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule or other regulatory bodies.

## **6. Employee Benefit Plans**

The Parent has a 401(k) and profit-sharing plan covering eligible employees of the Company, under which the Company's annual profit-sharing contributions are determined at the discretion of the Parent's Board of Directors. The Company also makes matching contributions pursuant to the plan document. The Company's employees also participate in the Parent's stock option and incentive plans.

## **7. Commitments and Contingencies**

### **Lease Commitments**

The Company leases computer and office equipment and facilities on a month-to-month basis through an affiliated company.

### **Borrowing Arrangements**

The Company had access to uncommitted credit facilities with financial institutions of up to \$780 million as of March 31, 2008. The financial institutions may make loans under the credit facilities or, in some cases, issue letters of credit under these facilities. The credit facilities may

TD AMERITRADE Clearing, Inc.  
(A Wholly Owned Subsidiary of  
TD AMERITRADE Holding Corporation)

Notes to Statement of Financial Condition (continued)

require the Company to pledge client securities to secure outstanding obligations under these facilities. The Company had access to an unsecured uncommitted credit facility of \$150 million as of March 31, 2008, with no borrowings outstanding as of March 31, 2008. The Company had access to secured uncommitted credit facilities of up to \$630 million as of March 31, 2008, with no borrowings outstanding as of March 31, 2008. The Company is generally required to pledge client securities to secure letters of credit. No letters of credit were outstanding as of March 31, 2008.

The Company's common stock has been pledged as collateral on the Parent's senior credit facilities. Covenants under the Parent's senior credit facilities limit the Parent's broker-dealer subsidiaries, including the Company, to an aggregate outstanding principal balance of \$1 billion in borrowings on uncommitted lines of credit, excluding securities lending.

### **Legal**

The Company is subject to lawsuits, arbitrations, claims, and other legal proceedings in connection with its business. Some of the legal actions include claims for substantial or unspecified compensatory and/or punitive damages. A substantial adverse judgment or other unfavorable resolution of these matters could have a material adverse effect on the Company's statement of financial condition. Management believes the Company has adequate legal defenses with respect to the legal proceedings to which it is a defendant or respondent, and the outcome of these pending proceedings is not likely to have a material adverse effect on the statement of financial condition of the Company. However, the Company is unable to predict the outcome of these matters.

### **Regulatory Matters**

In the ordinary course of business, the Company discusses with its regulators matters raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's statement of financial condition. However, the Company is unable to predict the outcome of these matters.

### **Income Taxes**

The Company's federal and state income tax returns are subject to examination by taxing authorities. Because the application of tax laws and regulations to many types of transactions is subject to varying interpretations, amounts reported in the statement of financial condition could be changed at a later date upon final determinations by taxing authorities.

TD AMERITRADE Clearing, Inc.  
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Notes to Statement of Financial Condition (continued)

**General Contingencies**

In the ordinary course of business, there are various contingencies that are not reflected in the statement of financial condition. These include the Company's client activities involving the execution, settlement, and financing of various client securities transactions. These activities may expose the Company to credit risk in the event the clients are unable to fulfill their contractual obligations.

The Company's client securities activities are transacted on either a cash or margin basis. In margin transactions, the Company may extend credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. In connection with these activities, the Company also executes and clears client transactions involving the sale of securities not yet purchased (short sales). Such margin-related transactions may expose the Company to credit risk in the event a client's assets are not sufficient to fully cover losses that the client may incur. In the event the client fails to satisfy its obligations, the Company has the authority to purchase or sell financial instruments in the client's account at prevailing market prices in order to fulfill the client's obligations.

The Company seeks to control the risks associated with its client securities activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels throughout each trading day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

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

The Company borrows securities temporarily from other broker-dealers in connection with its broker-dealer business. The Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the market value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return the cash deposited, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company mitigates this risk by requiring credit approvals for counterparties, by monitoring the collateral 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. As of March 31, 2008, approximately

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Notes to Statement of Financial Condition (continued)

\$2.6 billion of the receivables for securities borrowed were receivable from the OCC through their risk-sharing program, representing approximately 55% of the balance of securities borrowed on the statement of financial condition. The OCC's most recent Standard and Poor's credit rating is AAA.

As of March 31, 2008, client excess margin securities of approximately \$10.5 billion and stock borrowings of approximately \$4.8 billion were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had loaned approximately \$6.6 billion and repledged approximately \$1.1 billion of that collateral as of March 31, 2008.

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

## **8. Related-Party Transactions**

### **Money Market Deposit Account Agreement**

The Toronto-Dominion Bank (TD) is an affiliate of the Parent, owning approximately 39.9% of the Parent's voting common stock as of March 31, 2008. TDA Inc. and the Company are party to a money market deposit account (MMDA) agreement with TD Bank USA, N.A. and TD, which was entered into on January 24, 2006, in connection with the Parent's acquisition of TD Waterhouse. Under the MMDA agreement, TD Bank USA makes available to clients of TDA Inc. money market deposit accounts as designated sweep vehicles. TDA Inc. provides marketing and support services with respect to the money market deposit accounts, and the Company acts as an agent for clients of TDA Inc. and as record-keeper for TD Bank USA, in each case with respect to the money market deposit accounts. In exchange for providing these services, TD Bank USA pays TDA Inc. and the Company collectively a fee based on the yield earned by TD Bank USA on the client MMDA assets (including any gains or losses from sales of investments), less the actual interest paid to clients, a flat fee to TD Bank USA of 25 basis points, and the cost of FDIC insurance premiums. TD Bank USA invests the swept client cash primarily in fixed-income securities backed by Canadian government guarantees, which are highly rated securities.

In the event the fee computation results in a negative amount, TDA Inc. and the Company must pay TD Bank USA the negative amount. This effectively results in TDA Inc. and the Company guaranteeing TD Bank USA revenue of 25 basis points on the MMDA agreement, plus the reimbursement of FDIC insurance premiums. The fee computation under the MMDA agreement

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Notes to Statement of Financial Condition (continued)

is affected by many variables, including the type, duration, credit quality, principal balance and yield of the investment portfolio at TD Bank USA, the prevailing interest rate environment, the amount of client deposits, and the yield paid on client deposits. Because a negative MMDA fee computation would arise only if there were extraordinary movements in many of these variables, the maximum potential amount of future payments the Company could be required to make under this arrangement cannot be reasonably estimated. Management believes the potential for the fee calculation to result in a negative amount is remote and the fair value of the guarantee is immaterial. Accordingly, no contingent liability is carried on the statement of financial condition for the MMDA agreement.

The MMDA agreement had an initial term of two years and automatically renewed for an additional two-year term on January 24, 2008. The agreement is automatically renewable for successive two-year terms, provided that it may be terminated by any party upon one year's prior written notice.

**Cash Management Services Agreement**

Pursuant to a Cash Management Services Agreement, TD Bank USA provides cash management services to clients of TDA Inc. and the Company. In exchange for such services, the Company pays TD Bank USA service-based fees agreed upon by the parties. The cash management services agreement will continue in effect for as long as the MMDA agreement remains in effect, provided that it may be terminated by TDA Inc. without cause upon 60 days prior written notice to TD Bank USA.

**Other Related-Party Transactions**

Receivables from and payables to TD resulting from client cash sweep activity are generally settled in cash the next business day. Other receivables from and payables to affiliates resulting from the related-party transactions described above are generally settled in cash on a monthly basis.

The Company settles consolidated and combined current income tax payables and receivables with the Parent periodically, as amounts become due to or from the taxing authorities. Accounts payable and accrued liabilities includes \$54.6 million of income taxes payable to the Parent as of March 31, 2008.