TD AMERITRADE HOLDING CORP
Form 10-Q
August 07, 2013
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# 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 June 30, 2013**

**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 July 31, 2013, there were 550,261,721 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

TD Ameritrade Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries (the Company) as of June 30, 2013, the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended June 30, 2013 and 2012, and the condensed consolidated statements of cash flows for the nine-month periods ended June 30, 2013 and 2012. 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, 2012, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein) and in our report dated November 26, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2012, 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

August 7, 2013

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**TD AMERITRADE HOLDING CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

| | June 30, 2013 | September 30, 2012 |
|---|---|---|
| | (In millions) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 963 | $ 915 |
| Short-term investments | 4 | 154 |
| Cash and investments segregated and on deposit for regulatory purposes | 5,779 | 4,030 |
| Receivable from brokers, dealers and clearing organizations | 1,064 | 1,110 |
| Receivable from clients, net | 8,707 | 8,647 |
| Receivable from affiliates | 104 | 85 |
| Other receivables, net | 125 | 118 |
| Securities owned, at fair value | 348 | 343 |
| Investments available-for-sale, at fair value | 93 | 70 |
| Property and equipment at cost, net | 503 | 444 |
| Goodwill | 2,467 | 2,467 |
| Acquired intangible assets, net | 864 | 932 |
| Deferred income taxes | 1 | 2 |
| Other assets | 161 | 196 |
| Total assets | $ 21,183 | $ 19,513 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Liabilities: | | |
| Payable to brokers, dealers and clearing organizations | $ 2,914 | $ 1,992 |
| Payable to clients | 11,630 | 10,728 |
| Accounts payable and accrued liabilities | 541 | 632 |
| Payable to affiliates | 6 | 4 |
| Notes payable | 95 | |
| Deferred revenue | 16 | 28 |
| Long-term debt | 1,053 | 1,345 |
| Capitalized lease obligations | 3 | 5 |
| Deferred income taxes | 374 | 354 |
| Total liabilities | 16,632 | 15,088 |
| 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; June 30, 2013 - 550 million shares outstanding; September 30, 2012 - 545 million shares outstanding | 6 | 6 |
| Additional paid-in capital | 1,586 | 1,587 |
| Retained earnings | 4,153 | 4,100 |
| Treasury stock, common, at cost: June 30, 2013 - 81 million shares; September 30, 2012 - 86 million shares | (1,226) | (1,286) |
| Net unrealized gain on investments available-for-sale | 32 | 18 |
| Total stockholders equity | 4,551 | 4,425 |
| Total liabilities and stockholders equity | $ 21,183 | $ 19,513 |

See notes to condensed consolidated financial statements.

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**TD AMERITRADE HOLDING CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(Unaudited)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In millions, except per share amounts) | | | |
| Revenues: | | | | |
| Transaction-based revenues: | | | | |
| Commissions and transaction fees | $ 321 | $ 266 | $ 865 | $ 832 |
| Asset-based revenues: | | | | |
| Interest revenue | 122 | 120 | 356 | 339 |
| Brokerage interest expense | (2) | (2) | (5) | (5) |
| Net interest revenue | 120 | 118 | 351 | 334 |
| Insured deposit account fees | 199 | 206 | 604 | 621 |
| Investment product fees | 65 | 54 | 182 | 144 |
| Total asset-based revenues | 384 | 378 | 1,137 | 1,099 |
| Other revenues | 20 | 23 | 53 | 63 |
| Net revenues | 725 | 667 | 2,055 | 1,994 |
| Operating expenses: | | | | |
| Employee compensation and benefits | 176 | 176 | 522 | 524 |
| Clearing and execution costs | 30 | 22 | 81 | 66 |
| Communications | 28 | 29 | 85 | 83 |
| Occupancy and equipment costs | 42 | 36 | 121 | 111 |
| Depreciation and amortization | 22 | 18 | 63 | 53 |
| Amortization of acquired intangible assets | 23 | 23 | 68 | 69 |
| Professional services | 36 | 40 | 103 | 129 |
| Advertising | 56 | 50 | 184 | 191 |
| Other | 14 | 19 | 52 | 66 |
| Total operating expenses | 427 | 413 | 1,279 | 1,292 |
| Operating income | 298 | 254 | 776 | 702 |
| Other expense (income): | | | | |
| Interest on borrowings | 6 | 7 | 19 | 22 |
| Gain on sale of investments | (6) | | (8) | |
| Total other expense (income) | | 7 | 11 | 22 |
| Pre-tax income | 298 | 247 | 765 | 680 |
| Provision for income taxes | 114 | 93 | 291 | 238 |

| | | | | |
|---|---|---|---|---|
| Net income | $ 184 | $ 154 | $ 474 | $ 442 |
| | | | | |
| Earnings per share - basic | $ 0.33 | $ 0.28 | $ 0.86 | $ 0.81 |
| Earnings per share - diluted | $ 0.33 | $ 0.28 | $ 0.86 | $ 0.80 |
| Weighted average shares outstanding - basic | 550 | 548 | 548 | 549 |
| Weighted average shares outstanding - diluted | 554 | 553 | 553 | 554 |
| Dividends declared per share | $ 0.09 | $ 0.06 | $ 0.77 | $ 0.18 |

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 June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In millions) | | | |
| Net income | $ 184 | $ 154 | $ 474 | $ 442 |
| Other comprehensive income (loss): | | | | |
| Change in net unrealized gain on investments available-for-sale: | | | | |
| Net unrealized gain (loss) | (4) | | 23 | |
| Income tax effect | 1 | | (9) | |
| Total other comprehensive income (loss) | (3) | | 14 | |
| Comprehensive income | $ 181 | $ 154 | $ 488 | $ 442 |

See notes to condensed consolidated financial statements.

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**TD AMERITRADE HOLDING CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (In millions) | |
| Cash flows from operating activities: | | |
| Net income | $ 474 | $ 442 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 63 | 53 |
| Amortization of acquired intangible assets | 68 | 69 |
| Deferred income taxes | 13 | 15 |
| Gain on sale of investments | (8) | |
| Stock-based compensation | 22 | 35 |
| Excess tax benefits on stock-based compensation | (24) | (18) |
| Other, net | (1) | 6 |
| Changes in operating assets and liabilities: | | |
| Cash and investments segregated and on deposit for regulatory purposes | (1,749) | (1,028) |
| Receivable from brokers, dealers and clearing organizations | 46 | (219) |
| Receivable from clients, net | (60) | (679) |
| Receivable from/payable to affiliates, net | (17) | 12 |
| Other receivables, net | (7) | 18 |
| Securities owned | (5) | 101 |
| Other assets | (9) | 6 |
| Payable to brokers, dealers and clearing organizations | 922 | 475 |
| Payable to clients | 902 | 1,120 |
| Accounts payable and accrued liabilities | (68) | (17) |
| Deferred revenue | (12) | (10) |
| Net cash provided by operating activities | 550 | 381 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (124) | (121) |
| Purchase of short-term investments | (1) | (127) |
| Proceeds from sale and maturity of short-term investments | 151 | 1 |
| Proceeds from sale of investments | 10 | |
| Other, net | 2 | 1 |
| Net cash provided by (used in) investing activities | 38 | (246) |

See notes to condensed consolidated financial statements.

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**TD AMERITRADE HOLDING CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**(Unaudited)**

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2013 | 2012 |
| | (In millions) | |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | $ (250) | $ |
| Proceeds from notes payable | 275 | |
| Principal payments on notes payable | (180) | |
| Payment of cash dividends | (421) | (99) |
| Proceeds from exercise of stock options; Nine months ended June 30, 2013 - 4.6 million shares; 2012 - 1.2 million shares | 19 | 5 |
| Purchase of treasury stock; Nine months ended June 30, 2013 - 0.3 million shares; 2012 - 10.6 million shares | (5) | (177) |
| Principal payments on capital lease obligations | (2) | (4) |
| Excess tax benefits on stock-based compensation | 24 | 18 |
| Net cash used in financing activities | (540) | (257) |
| Net increase (decrease) in cash and cash equivalents | 48 | (122) |
| Cash and cash equivalents at beginning of period | 915 | 1,032 |
| Cash and cash equivalents at end of period | $ 963 | $ 910 |
| Supplemental cash flow information: | | |
| Interest paid | $ 25 | $ 25 |
| Income taxes paid | $ 259 | $ 214 |

See notes to condensed consolidated financial statements.

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**TD AMERITRADE HOLDING CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the Three-Month and Nine-Month Periods Ended June 30, 2013 and 2012**

**(Unaudited)**

## 1. BASIS OF PRESENTATION

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

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s annual report filed on Form 10-K for the fiscal year ended September 30, 2012.

***Recently Adopted Accounting Pronouncements***

*ASU 2011-05* On October 1, 2012, the Company adopted Accounting Standards Update ( ASU ) 2011-05, *Presentation of Comprehensive Income.* ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity and allows two options for presenting the components of net income and other comprehensive income: (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive statements, consisting of a statement of net income followed by a separate statement of other comprehensive income. The Company selected the second option for adoption of ASU 2011-05. The adoption of ASU 2011-05 resulted only in changes to the manner in which components of other comprehensive income are presented in the Company s condensed consolidated financial statements.

## 2. CASH AND CASH EQUIVALENTS

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

| | June 30, 2013 | September 30, 2012 |
|---|---|---|
| Corporate | $ 341 | $ 403 |
| Broker-dealer subsidiaries | 555 | 406 |
| Trust company subsidiary | 39 | 95 |
| Investment advisory subsidiaries | 28 | 11 |
| Total | $ 963 | $ 915 |

Capital requirements may limit the amount of cash available for dividend from the broker-dealer 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.

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**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):

| | June 30, 2013 | September 30, 2012 |
|---|---|---|
| Reverse repurchase agreements (collateralized by U.S. government debt securities) | $ 2,843 | $ 2,181 |
| U.S. government debt securities | 1,949 | 1,564 |
| Cash in demand deposit accounts | 831 | 179 |
| Cash on deposit with futures commission merchant | 106 | 96 |
| U.S. government debt securities on deposit with futures commission merchant | 50 | 10 |
| Total | $ 5,779 | $ 4,030 |

**4. INCOME TAXES**

The Company s effective income tax rate for the nine months ended June 30, 2013 was 38.0%, compared to 35.0% for the nine months ended June 30, 2012. The provision for income taxes for the nine months ended June 30, 2012 was significantly lower than normal primarily due to $19 million of favorable resolutions of state income tax matters. This favorably impacted the Company s earnings for the nine months ended June 30, 2012 by approximately three cents per share.

**5. NOTES PAYABLE AND LONG-TERM DEBT**

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

| June 30, 2013 | Face Value | Unamortized Discount | Fair Value Adjustment [1] | Net Carrying Value |
|---|---|---|---|---|
| Notes payable: | | | | |
| Parent Revolving Facility | $ 95 | $ | $ | $ 95 |
| Senior Notes: | | | | |
| 4.150% Senior Notes due 2014 | 500 | | 18 | 518 |
| 5.600% Senior Notes due 2019 | 500 | (1) | 36 | 535 |
| Subtotal - Long-term debt | 1,000 | (1) | 54 | 1,053 |
| Total notes payable and long-term debt | $ 1,095 | $ (1) | $ 54 | $ 1,148 |

| September 30, 2012 | Face Value | Unamortized Discount | Fair Value Adjustment [1] | Net Carrying Value |
|---|---|---|---|---|
| Senior Notes: | | | | |
| 2.950% Senior Notes due 2012 | $ 250 | $ | $ 1 | $ 251 |
| 4.150% Senior Notes due 2014 | 500 | | 27 | 527 |
| 5.600% Senior Notes due 2019 | 500 | (1) | 68 | 567 |
| Total long-term debt | $ 1,250 | $ (1) | $ 96 | $ 1,345 |

(1) Fair value adjustments relate to changes in the fair value of the debt while in a fair value hedging relationship. See Interest Rate Swaps below.

*Interest Rate Swaps* 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, on December 30, 2009, the Company entered into fixed-for-variable interest rate swaps on the 2.950% Senior Notes due December 1, 2012 (the 2012 Notes ) and the 4.150% Senior Notes due December 1, 2014 (the 2014 Notes ) for notional amounts of $250 million and $500 million, respectively, with maturity dates matching the respective maturity dates of the 2012 Notes and 2014 Notes. In addition, on January 7, 2011, the Company entered into a fixed-for-variable interest rate swap on the 5.600% Senior Notes due December 1, 2019 (the 2019 Notes ) for a notional amount of $500 million, with a maturity date matching the maturity date of the 2019 Notes. 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) 0.9693% for the swap on the

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2012 Notes, (b) 1.245% for the swap on the 2014 Notes and (c) 2.3745% for the swap on the 2019 Notes. On December 1, 2012, the Company paid in full the outstanding principal under the 2012 Notes and the interest rate swap on the 2012 Notes expired. As of June 30, 2013, the weighted-average effective interest rate on the Senior Notes was 2.08%.

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 the interest rate swaps and the hedged fixed-rate debt for the periods indicated (dollars in millions):

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Gain (loss) on fair value of interest rate swaps | $ (26) | $ 15 | $ (42) | $ 5 |
| Gain (loss) on fair value of hedged fixed-rate debt | 26 | (15) | 42 | (5) |
| Net gain (loss) recorded in interest on borrowings | $ | $ | $ | $ |

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

| | June 30, 2013 | September 30, 2012 |
|---|---|---|
| Derivatives recorded under the caption Other assets: | | |
| Interest rate swap assets | $ 54 | $ 96 |

The interest rate swaps are subject to counterparty credit risk. Credit risk is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold and by entering into credit support agreements. The bilateral credit support agreements related to 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. As of June 30, 2013 and September 30, 2012, the interest rate swap counterparties for the Senior Notes had pledged $57 million and $113 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 accrued liabilities on the Condensed Consolidated Balance Sheets.

*TD Ameritrade Holding Corporation Credit Agreement* On December 28, 2012, the Company borrowed $275 million under the TD Ameritrade Holding Corporation senior unsecured revolving credit facility (the Parent Revolving Facility ). The Company used the proceeds to fund a $0.50 per share special cash dividend, paid on the Company s common stock on December 31, 2012. Through June 30, 2013, the Company repaid $180 million of the outstanding principal under the Parent Revolving Facility and the remaining $95 million balance was repaid on July 26, 2013. The maturity date of the Parent Revolving Facility is June 28, 2014. Interest is payable monthly based on one-month LIBOR plus an interest rate margin. As of June 30, 2013, the interest rate margin was 1.25%, determined by reference to the Company s public debt ratings, and the interest rate was 1.45%.

**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. ( TDAC ), 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 a futures commission merchant registered with the Commodity Futures Trading Commission ( 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 futures commission merchant in client and nonclient accounts, or (c) its Rule 15c3-1 net capital requirement.

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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 |
| June 30, 2013 | $ 1,233 | $ 209 | $ 1,024 | $ 710 | 11.78% |
| September 30, 2012 | $ 1,302 | $ 203 | $ 1,099 | $ 796 | 12.86% |

| | TD Ameritrade, Inc. | | | |
|---|---|---|---|---|
| Date | Net Capital | Required Net Capital (8% of Total Risk Margin or Minimum Dollar Requirement) | Net Capital in Excess of Required Net Capital | Net Capital in Excess of Early Warning Threshold (110% of Required Net Capital) |
| June 30, 2013 | $ 251 | $ 8 | $ 243 | $ 242 |
| September 30, 2012 | $ 261 | $ 8 | $ 253 | $ 252 |

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 $22 million and $20 million as of June 30, 2013 and September 30, 2012, respectively, which exceeded the required Tier 1 capital by $8 million and $10 million, respectively.

**7. COMMITMENTS AND CONTINGENCIES**

**Legal and Regulatory Matters**

*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.

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In November 2008, a purported class action lawsuit was filed with respect to the Yield Plus Fund. The lawsuit is captioned *Ross v. Reserve Management Company, Inc. et al.* and is pending in the U.S. District Court for the Southern District of New York. The Ross lawsuit is on behalf of persons who purchased shares of Reserve Yield Plus Fund. On November 20, 2009, the plaintiffs filed a first amended complaint naming as defendants the fund s advisor, certain of its affiliates and the Company and certain of its directors, officers and shareholders as alleged control persons. The complaint alleges claims of violations of the federal securities laws and other claims based on allegations that false and misleading statements and omissions were made in the Reserve Yield Plus Fund prospectuses and in other statements regarding the fund. The complaint seeks an unspecified amount of compensatory damages including interest, attorneys fees, rescission, exemplary damages and equitable relief. On January 19, 2010, the defendants submitted motions to dismiss the complaint. The 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 the value of payments 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. Accounting Standards Codification ( 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 $50 million as of June 30, 2013. 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.

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**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 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.

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The following table summarizes client excess 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):

| | June 30, 2013 | September 30, 2012 |
|---|---|---|
| Client excess margin securities | $ 12.1 | $ 12.0 |
| Stock borrowings | 0.9 | 0.9 |
| Total collateral available | $ 13.0 | $ 12.9 |
| Collateral loaned | $ 2.9 | $ 1.9 |
| Collateral repledged | 1.9 | 1.2 |
| Total collateral loaned or repledged | $ 4.8 | $ 3.1 |

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):

| | June 30, 2013 | September 30, 2012 |
|---|---|---|
| Cash | $ 140 | $ 121 |
| U.S. government debt securities | 61 | 56 |
| Total | $ 201 | $ 177 |

**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 an unaffiliated clearing firm. The Company has agreed to indemnify the unaffiliated clearing firm for any loss that it may incur for the client transactions introduced to it by the Company.

See Insured Deposit Account Agreement in Note 10 for a description of a guarantee included in that agreement.

**Employment Agreements**

The Company has entered into employment agreements with several of its key executive officers. These employment agreements generally provide for annual base salary and incentive compensation, as well as stock award acceleration and severance payments in the event of termination of employment under certain defined circumstances or changes in control of the Company. Incentive compensation, a portion of which is awarded in the form of stock-based compensation, is based on the Company s financial performance and other factors.

**8. FAIR VALUE DISCLOSURES**

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.

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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. This category also includes convertible preferred equity securities for which the fair value was measured on an as-converted basis.

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

The following tables present the Company s fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and September 30, 2012 (dollars in millions):

| | As of June 30, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| **Assets:** | | | | |
| Cash equivalents: | | | | |
| Money market mutual funds | $ 852 | $ | $ | $ 852 |
| Short-term investments: | | | | |
| U.S. government debt securities | | 4 | | 4 |
| Investments segregated for regulatory purposes: | | | | |
| U.S. government debt securities | | 1,999 | | 1,999 |
| Securities owned: | | | | |
| Auction rate securities | | | 5 | 5 |
| Money market and other mutual funds | | | 1 | 1 |
| U.S. government debt securities | | 338 | | 338 |
| Other | 1 | 3 | | 4 |
| Subtotal - Securities owned | 1 | 341 | 6 | 348 |
| Investments available-for-sale: | | | | |
| Equity securities | 93 | | | 93 |
| Other assets: | | | | |
| Interest rate swaps[(1)] | | 54 | | 54 |
| Total assets at fair value | $ 946 | $ 2,398 | $ 6 | $ 3,350 |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Securities sold, not yet purchased: | | | | |

| | | | | |
|---|---|---|---|---|
| Equity securities | $ 3 | $ | $ | $ 3 |
| Other | | 1 | | 1 |
| Total liabilities at fair value: | $ 3 | $ 1 | $ | $ 4 |

(1) See Interest Rate Swaps in Note 5 for details.

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| | As of September 30, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value |
| **Assets:** | | | | |
| Cash equivalents: | | | | |
| Money market mutual funds | $ 768 | $ | $ | $ 768 |
| U.S. government debt securities | | 50 | | 50 |
| Subtotal - Cash equivalents | 768 | 50 | | 818 |
| Short-term investments: | | | | |
| U.S. government debt securities | | 154 | | 154 |
| Investments segregated for regulatory purposes: | | | | |
| U.S. government debt securities | | 1,574 | | 1,574 |
| Securities owned: | | | | |
| Auction rate securities | | | 6 | 6 |
| Money market and other mutual funds | | | 1 | 1 |
| U.S. government debt securities | | 333 | | 333 |
| Other | 1 | 2 | | 3 |
| Subtotal - Securities owned | 1 | 335 | 7 | 343 |
| Investments available-for-sale: | | | | |
| Convertible preferred equity securities | | 70 | | 70 |
| Other assets: | | | | |
| Interest rate swaps[(1)] | | 96 | | 96 |
| Total assets at fair value | $ 769 | $ 2,279 | $ 7 | $ 3,055 |
| **Liabilities:** | | | | |
| Accounts payable and accrued liabilities: | | | | |
| Securities sold, not yet purchased: | | | | |
| Equity securities | $ 3 | $ | $ | $ 3 |

(1) See Interest Rate Swaps in Note 5 for details.

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There were no transfers between any levels of the fair value hierarchy during the periods presented in the table below. The following table presents the changes in Level 3 assets measured at fair value on a recurring basis for the three months and nine months ended June 30, 2013 and 2012 (dollars in millions):

| | Three Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2013 | | June 30, 2012 | |
| | Auction Rate Securities | Money Market and Other Mutual Funds | Auction Rate Securities | Money Market and Other Mutual Funds |
| Balance, beginning of period | $ 5 | $ 1 | $ 7 | $ 1 |
| Settlements | | | (1) | |
| Balance, ending of period | $ 5 | $ 1 | $ 6 | $ 1 |

| | Nine Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2013 | | June 30, 2012 | |
| | Auction Rate Securities | Money Market and Other Mutual Funds | Auction Rate Securities | Money Market and Other Mutual Funds |
| Balance, beginning of period | $ 6 | $ 1 | $ 20 | $ 1 |
| Sales | | | (2) | |
| Settlements | (1) | | (12) | |
| Balance, ending of period | $ 5 | $ 1 | $ 6 | $ 1 |

There were no nonfinancial assets or liabilities measured at fair value during the three months and nine months ended June 30, 2013 and 2012.

**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:

*Convertible Preferred Equity Securities* As of September 30, 2012, these securities represented the Company s investment in 39,000 shares of Knight Capital Group, Inc. ( Knight ) 2% convertible preferred shares. Each preferred share was convertible to 666.667 shares of Knight Class A common stock. The fair value of the preferred securities was based on quoted market prices of Knight Class A common stock on an as-converted basis. On February 28, 2013, all of the Company s preferred shares were converted into approximately 26 million shares of Knight Class A common stock (categorized as Level 1 of the fair value hierarchy).

*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 counterparties using a model 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. Counterparty credit risk is not an input to the valuation because the Company has 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 counterparty valuations by comparing them to a valuation model provided by another third party service.

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Level 3 Measurements:

*Money Market and Other Mutual Funds* The fair value of positions in money market and other mutual funds managed by The Reserve is estimated by management based on the underlying portfolio holdings data published by The Reserve.

*Auction Rate Securities ( ARS )* ARS are long-term variable rate securities tied to short-term interest rates that are reset through a Dutch auction process, which generally occurs every seven to 35 days. Holders of ARS were previously able to liquidate their holdings to prospective buyers by participating in the auctions. During fiscal 2008, the Dutch auction process failed and holders were no longer able to liquidate their holdings through the auction process. The fair value of Company ARS holdings is primarily estimated based on an internal pricing model. The pricing model takes into consideration the characteristics of the underlying securities, as well as multiple inputs, including counterparty credit quality, expected timing of redemptions and an estimated yield premium that a market participant would require over otherwise comparable securities to compensate for the illiquidity of the ARS. These inputs require significant management judgment.

The following table summarizes quantitative information about Level 3 unobservable inputs as of June 30, 2013 and September 30, 2012:

| Asset | Valuation Technique | Unobservable Input | Range | Weighted Average |
|---|---|---|---|---|
| Auction Rate Securities | Discounted cash flow | Constant prepayment rate (Annual) | 15% - 20% | 17% |
| | | Yield premium for illiquidity | 2% | 2% |

**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 accrued 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 accrued 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.

*Senior Notes* As of June 30, 2013, 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 $1.108 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $1.053 billion. As of September 30, 2012, the Company s Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $1.373 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $1.345 billion.

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**9. EARNINGS PER SHARE**

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | $ 184 | $ 154 | $ 474 | $ 442 |
| Weighted average shares outstanding - basic | 550 | 548 | 548 | 549 |
| Effect of dilutive securities: | | | | |
| Common stock equivalent shares related to stock-based compensation | 4 | 5 | 5 | 5 |
| Weighted average shares outstanding - diluted [(1)] | 554 | 553 | 553 | 554 |
| Earnings per share - basic | $ 0.33 | $ 0.28 | $ 0.86 | $ 0.81 |
| Earnings per share - diluted | $ 0.33 | $ 0.28 | $ 0.86 | $ 0.80 |

(1) The Company excluded from the calculation of diluted earnings per share 0.05 million and 2.5 million shares underlying stock-based compensation awards for the three months ended June 30, 2013 and 2012, respectively, and 0.9 million and 2.5 million shares underlying stock-based compensation awards for the nine months ended June 30, 2013 and 2012, respectively, because their inclusion would have been antidilutive.

**10. 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 42% of the Company s common stock as of June 30, 2013. 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***

Through December 31, 2012, the Company was party to an insured deposit account ( IDA ) agreement, dated as of December 19, 2009, with TD Bank USA, N.A. ( TD Bank USA ), TD Bank, N.A. and TD (the old IDA agreement ). Under the old IDA agreement, TD Bank USA and TD Bank, N.A. (together, the Depository Institutions ) made 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 provided marketing, recordkeeping and support services for the Depository Institutions with respect to the money market deposit accounts. In exchange for providing these services, the Depository Institutions paid 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 flat servicing fee to the Depository Institutions of 25 basis points and the cost of FDIC insurance premiums.

The fee earned on the old IDA agreement was 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, based on the monthly average rate for 30-day LIBOR. The agreement provided that, from time to time, the Company may request amounts and maturity dates for the fixed-rate notional investments in the IDA portfolio, subject to the approval of the Depository Institutions. For example, if the Company requested (and the Depository Institutions agreed) that $100 million of deposits should be invested in 5-year fixed-rate investments, and on the day such investment was approved the prevailing fixed yield for the applicable 5-year U.S. dollar LIBOR-based swaps was 1.00%, then the

Company would earn a gross fixed yield of 1.00% on that portion of the portfolio (before any deductions for interest paid to clients, the flat 25 basis point servicing fee to the Depository Institutions and the cost of FDIC insurance premiums). The interest rates paid to clients were set by the Depository Institutions and were not linked to any index.

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On January 17, 2013, the Company entered into a new IDA agreement among the same parties (the new IDA agreement ), which superseded and replaced the old IDA agreement. The new 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 Depository 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 marketing fee calculation under the new IDA agreement is substantially similar to the old IDA agreement, with certain significant differences described below.

The new 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. 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%.

Under the new IDA agreement, 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.

As of June 30, 2013, the IDA portfolio was comprised of approximately 77% fixed-rate notional investments and 23% floating-rate investments.

The servicing fee to the Depository Institutions under the new 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 Depository Institutions leverage costs) and a maximum of 25 basis points.

Under both the new and old IDA agreements, in the event the marketing fee computation results in a negative amount, the Company must pay the Depository Institutions the negative amount. This effectively results in the Company guaranteeing the Depository Institutions revenue 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 June 30, | | Nine months ended June 30, | |
| Description | Statement of Income Classification | 2013 | 2012 | 2013 | 2012 |
| Insured Deposit Account Agreement | Insured deposit account fees | $ 199 | $ 206 | $ 604 | $ 621 |
| Mutual Fund Agreements | Investment product fees | | 1 | 1 | 3 |
| Referral and Strategic Alliance Agreement | Various | 3 | 2 | 8 | 5 |
| Securities borrowing and lending, net | Net interest revenue | 1 | 1 | 2 | 2 |
| Other | Various | 1 | 1 | 2 | 2 |
| Total revenues | | $ 204 | $ 211 | $ 617 | $ 633 |

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| Description | Statement of Income Classification | Expenses to TD and Affiliates Three months ended June 30, 2013 | 2012 | Nine months ended June 30, 2013 | 2012 |
|---|---|---|---|---|---|
| Canadian Call Center Services Agreement | Professional services | $ 5 | $ 4 | $ 14 | $ 13 |
| Other | Various | | 1 | 2 | 3 |
| Total expenses | | $ 5 | $ 5 | $ 16 | $ 16 |

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):

| | June 30, 2013 | September 30, 2012 |
|---|---|---|
| **Assets:** | | |
| Receivable from brokers, dealers and clearing organizations | $ 2 | $ 1 |
| Receivable from affiliates | 104 | 85 |
| **Liabilities:** | | |
| Payable to brokers, dealers and clearing organizations | $ 95 | $ 125 |
| Payable to affiliates | 6 | 4 |

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

**11. SUBSEQUENT EVENT**

On July 1, 2013, Knight Capital Group, Inc. completed its merger with GETCO Holding Company, LLC ( GETCO ), whereby Knight and GETCO were combined into KCG Holdings, Inc. ( KCG ), a new publicly traded holding corporation. The Company received merger consideration with an aggregate fair value of $95 million in exchange for its Knight Class A common stock, consisting of approximately $69 million in cash and approximately 2.5 million shares of KCG common stock with a fair value of approximately $26 million based on the final quoted market price of the Knight Class A common stock immediately prior to the merger. The Company realized a pre-tax gain of approximately $54 million for this transaction, which will be recorded during the fourth quarter of fiscal 2013 and is expected to increase earnings on an after-tax basis by six cents per share.

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**12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

The Senior 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 income 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 JUNE 30, 2013**

**(Unaudited)**

| | Parent | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 100 | $ 6 | $ 857 | $ | $ 963 |
| Short-term investments | | | 4 | | 4 |
| Cash and investments segregated and on deposit for regulatory purposes | | | 5,779 | | 5,779 |
| Receivable from brokers, dealers and clearing organizations | | | 1,064 | | 1,064 |
| Receivable from clients, net | | | 8,707 | | 8,707 |
| Investments in subsidiaries | 5,558 | 5,330 | 548 | (11,436) | |
| Receivable from affiliates | 4 | 3 | 102 | (5) | 104 |
| Goodwill | | | 2,467 | | 2,467 |
| Acquired intangible assets, net | | 146 | 718 | | 864 |
| Other, net | 183 | 8 | 1,054 | (14) | 1,231 |
| Total assets | $ 5,845 | $ 5,493 | $ 21,300 | $ (11,455) | $ 21,183 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| Liabilities: | | | | | |
| Payable to brokers, dealers and clearing organizations | $ | $ | $ 2,914 | $ | $ 2,914 |
| Payable to clients | | | 11,630 | | 11,630 |
| Accounts payable and accrued liabilities | 146 | | 403 | (8) | 541 |
| Payable to affiliates | | | 11 | (5) | 6 |
| Notes payable | 95 | | | | 95 |
| Long-term debt | 1,053 | | | | 1,053 |
| Other | | 50 | 349 | (6) | 393 |
| Total liabilities | 1,294 | 50 | 15,307 | (19) | 16,632 |
| Stockholders equity | 4,551 | 5,443 | 5,993 | (11,436) | 4,551 |
| Total liabilities and stockholders equity | $ 5,845 | $ 5,493 | $ 21,300 | $ (11,455) | $ 21,183 |

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**CONDENSED CONSOLIDATING BALANCE SHEET**

**AS OF SEPTEMBER 30, 2012**

**(Unaudited)**

| | Parent | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 178 | $ 6 | $ 731 | $ | $ 915 |
| Short-term investments | 151 | | 3 | | 154 |
| Cash and investments segregated and on deposit for regulatory purposes | | | 4,030 | | 4,030 |
| Receivable from brokers, dealers and clearing organizations | | | 1,110 | | 1,110 |
| Receivable from clients, net | | | 8,647 | | 8,647 |
| Investments in subsidiaries | 5,456 | 5,250 | 548 | (11,254) | |
| Receivable from affiliates | 5 | 3 | 83 | (6) | 85 |
| Goodwill | | | 2,467 | | 2,467 |
| Acquired intangible assets, net | | 146 | 786 | | 932 |
| Other, net | 230 | 7 | 961 | (25) | 1,173 |
| Total assets | $ 6,020 | $ 5,412 | $ 19,366 | $ (11,285) | $ 19,513 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | | |
| Liabilities: | | | | | |
| Payable to brokers, dealers and clearing organizations | $ | $ | $ 1,992 | $ | $ 1,992 |
| Payable to clients | | | 10,728 | | 10,728 |
| Accounts payable and accrued liabilities | 249 | | 391 | (8) | 632 |
| Payable to affiliates | 1 | | 9 | (6) | 4 |
| Long-term debt | 1,345 | | | | 1,345 |
| Other | | 48 | 356 | (17) | 387 |
| Total liabilities | 1,595 | 48 | 13,476 | (31) | 15,088 |
| Stockholders equity | 4,425 | 5,364 | 5,890 | (11,254) | 4,425 |
| Total liabilities and stockholders equity | $ 6,020 | $ 5,412 | $ 19,366 | $ (11,285) | $ 19,513 |

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**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

**THREE MONTHS ENDED JUNE 30, 2013**

**(Unaudited)**

| | Parent | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| Net revenues | $ 3 | $ | $ 725 | $ (3) | $ 725 |
| Operating expenses | (1) | | 431 | (3) | 427 |
| Operating income | 4 | | 294 | | 298 |
| Other expense (income) | 6 | | (6) | | |
| Income (loss) before income taxes and equity in income of subsidiaries | (2) | | 300 | | 298 |
| Provision for income taxes | | | 114 | | 114 |
| Income (loss) before equity in income of subsidiaries | (2) | | 186 | | 184 |
| Equity in income of subsidiaries | 186 | 180 | 10 | (376) | |
| Net income | $ 184 | $ 180 | $ 196 | $ (376) | $ 184 |

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

**THREE MONTHS ENDED JUNE 30, 2012**

**(Unaudited)**

| | Parent | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| Net revenues | $ 15 | $ | $ 667 | $ (15) | $ 667 |
| Operating expenses | 12 | | 416 | (15) | 413 |
| Operating income | 3 | | 251 | | 254 |
| Other expense (income) | 8 | | (1) | | 7 |
| Income (loss) before income taxes and equity in income of subsidiaries | (5) | | 252 | | 247 |
| Provision for (benefit from) income taxes | (2) | | 95 | | 93 |
| Income (loss) before equity in income of subsidiaries | (3) | | 157 | | 154 |
| Equity in income of subsidiaries | 157 | 148 | 9 | (314) | |
| Net income | $ 154 | $ 148 | $ 166 | $ (314) | $ 154 |

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**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

**NINE MONTHS ENDED JUNE 30, 2013**

**(Unaudited)**

| | Parent | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| Net revenues | $ 12 | $ | $ 2,054 | $ (11) | $ 2,055 |
| Operating expenses | 7 | | 1,283 | (11) | 1,279 |
| Operating income | 5 | | 771 | | 776 |
| Other expense (income) | 20 | | (9) | | 11 |
| Income (loss) before income taxes and equity in income of subsidiaries | (15) | | 780 | | 765 |
| Provision for (benefit from) income taxes | (7) | 1 | 297 | | 291 |
| Income (loss) before equity in income of subsidiaries | (8) | (1) | 483 | | 474 |
| Equity in income of subsidiaries | 482 | 465 | 26 | (973) | |
| Net income | $ 474 | $ 464 | $ 509 | $ (973) | $ 474 |

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

**NINE MONTHS ENDED JUNE 30, 2012**

**(Unaudited)**

| | Parent | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| Net revenues | $ 28 | $ | $ 1,994 | $ (28) | $ 1,994 |
| Operating expenses | 25 | | 1,295 | (28) | 1,292 |
| Operating income | 3 | | 699 | | 702 |
| Other expense | 22 | | | | 22 |
| Income (loss) before income taxes and equity in income of subsidiaries | (19) | | 699 | | 680 |
| Provision for (benefit from) income taxes | (17) | (1) | 256 | | 238 |
| Income (loss) before equity in income of subsidiaries | (2) | 1 | 443 | | 442 |
| Equity in income of subsidiaries | 444 | 434 | 25 | (903) | |
| Net income | $ 442 | $ 435 | $ 468 | $ (903) | $ 442 |

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**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

**NINE MONTHS ENDED JUNE 30, 2013**

**(Unaudited)**

| | Parent | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Total |
|---|---|---|---|---|
| | | (In millions) | | |
| Net cash provided by (used in) operating activities | $ (71) | $ | $ 621 | $ 550 |
| Cash flows from investing activities: | | | | |
| Purchase of property and equipment | | | (124) | (124) |
| Proceeds from sale and maturity of short-term investments | 150 | | 1 | 151 |
| Purchase of short-term investments | | | (1) | (1) |
| Other, net | | | 12 | 12 |
| Net cash provided by (used in) investing activities | 150 | | (112) | 38 |
| Cash flows from financing activities: | | | | |
| Principal payments on long-term debt | (250) | | | (250) |
| Proceeds from notes payable | 275 | | | 275 |
| Principal payments on notes payable | (180) | | | (180) |
| Payment of cash dividends | (421) | | | (421) |
| Purchase of treasury stock | (5) | | | (5) |
| Other, net | 43 | | (2) | 41 |
| Net cash used in financing activities | (538) | | (2) | (540) |
| Intercompany investing and financing activities, net | 381 | | (381) | |
| Net increase (decrease) in cash and cash equivalents | (78) | | 126 | 48 |
| Cash and cash equivalents at beginning of period | 178 | 6 | 731 | 915 |
| Cash and cash equivalents at end of period | $ 100 | $ 6 | $ 857 | $ 963 |

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**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

**NINE MONTHS ENDED JUNE 30, 2012**

**(Unaudited)**

| | Parent | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Total |
|---|---|---|---|---|
| | | (In millions) | | |
| Net cash provided by operating activities | $ 30 | $ 1 | $ 350 | $ 381 |
| Cash flows from investing activities: | | | | |
| Purchase of property and equipment | | | (121) | (121) |
| Purchase of short-term investments | (126) | | (1) | (127) |
| Proceeds from sale and maturity of short-term investments | | | 1 | 1 |
| Other, net | | | 1 | 1 |
| Net cash used in investing activities | (126) | | (120) | (246) |
| Cash flows from financing activities: | | | | |
| Purchase of treasury stock | (177) | | | (177) |
| Payment of cash dividends | (99) | | | (99) |
| Other, net | 23 | | (4) | 19 |
| Net cash used in financing activities | (253) | | (4) | (257) |
| Intercompany investing and financing activities, net | 439 | (2) | (437) | |
| Net increase (decrease) in cash and cash equivalents | 90 | (1) | (211) | (122) |
| Cash and cash equivalents at beginning of period | 93 | 7 | 932 | 1,032 |
| Cash and cash equivalents at end of period | $ 183 | $ 6 | $ 721 | $ 910 |

**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, 2012, 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, exp anticipate, plan, estimate, target, project, intend and similar expressions. In particular, forward-looking statements contained in this discus 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; the effect of our migration of client cash balances into the insured deposit account offering; the average yield earned on insured deposit account assets; 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, as amended, for the fiscal year ended September 30, 2012. 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, 2012, contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions. We believe that the following areas are particularly subject to management s judgments and estimates and could materially affect our results of operations and financial position: valuation of goodwill and acquired intangible assets; valuation of stock-

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based compensation; estimates of effective income tax rates, 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, 2012.

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, revenue-sharing arrangements with market destinations (also referred to as payment for order flow ) 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.

*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 on our

Consolidated Balance Sheets.

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*Conduit-based assets* Deposits paid on *securities borrowing* associated with our conduit-based securities borrowing/lending business. In our conduit business, we act as an intermediary by borrowing securities from one counterparty and lending the same securities to another counterparty. We generally earn a net interest spread equal to the excess of interest earned on *securities borrowing* deposits over the interest paid on *securities lending* deposits.

*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 Depository Institutions ) make available to clients of the Company FDIC-insured money market deposit accounts as either designated sweep vehicles or as non-sweep deposit accounts. The Company provides marketing, recordkeeping and support services for the Depository Institutions with respect to the money market deposit accounts. In exchange for providing these services, the Depository Institutions pay the Company 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 Depository Institutions of 25 *basis point*s (subject to adjustment) and the cost of FDIC insurance premiums.

*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.

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*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 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 and trust company subsidiaries in liquid assets regulatory threshold, rather than simply including broker-dealer and trust company cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer 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 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.

*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* in short-term marketable securities and interest earned on *securities borrowing*. Brokerage interest expense consists of amounts paid or payable to clients based on credit balances maintained in *brokerage accounts* and interest incurred on *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.

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*New accounts* The number of new client accounts (funded and unfunded) opened in a specified 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.

*Return on client assets ( ROCA )* Annualized pre-tax income divided by average *client assets* during the period.

*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.

*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, including *client margin balances*, *segregated cash*, *insured deposit account* balances, deposits paid on *securities borrowing* and other cash and interest-earning investment balances. Spread-based assets is used in the calculation of our *net interest margin*.

*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 revenue-sharing arrangements with market destinations (also known as payment for order flow ).

*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 revenue sharing arrangements with market destinations (also known as payment for order flow ).

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

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**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 June 30, | | | | Nine months ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| | $ | % of Net Revenue | $ | % of Net Revenue | $ | % of Net Revenue | $ | % of Net Revenue |
| **EBITDA** | | | | | | | | |
| EBITDA | $ 349 | 48.1% | $ 295 | 44.2% | $ 915 | 44.5% | $ 824 | 41.3% |
| Less: | | | | | | | | |
| Depreciation and amortization | (22) | (3.0%) | (18) | (2.7%) | (63) | (3.1%) | (53) | (2.7%) |
| Amortization of acquired intangible assets | (23) | (3.2%) | (23) | (3.4%) | (68) | (3.3%) | (69) | (3.5%) |
| Interest on borrowings | (6) | (0.8%) | (7) | (1.0%) | (19) | (0.9%) | (22) | (1.1%) |
| Provision for income taxes | (114) | (15.7%) | (93) | (13.9%) | (291) | (14.2%) | (238) | (11.9%) |
| Net income | $ 184 | 25.4% | $ 154 | 23.1% | $ 474 | 23.1% | $ 442 | 22.2% |

Our EBITDA increased 11% for the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012, primarily due to a 3% increase in net revenues, a 2% decrease in operating expenses excluding depreciation and amortization and $8 million of gains on the sale of investments. The increase in net revenues was primarily due to a 3% increase in asset-based revenues and a 4% increase in transaction-based revenues, partially offset by a 16% decrease in other revenues. The decrease in operating expenses excluding depreciation and amortization was primarily due to a 20% decrease in professional services expense and a 21% decrease in other operating expense, partially offset by a 23% increase in clearing and execution costs and a 9% increase in occupancy and equipment costs. Detailed analysis of net revenues and operating expenses is presented later in this discussion.

Our diluted earnings per share was $0.86 for the first nine months of fiscal 2013 compared to $0.80 for the first nine months of fiscal 2012. Higher EBITDA was partially offset by a higher effective income tax rate for the first nine months of fiscal 2013, resulting in a 7% increase in net income compared to the first nine months of fiscal 2012. Our effective income tax rate for the first nine months of the prior year was significantly lower than normal, primarily due to $19 million of favorable resolutions of state income tax matters. This favorably impacted diluted EPS for the first nine months of the prior year by approximately three cents per share.

**Operating Metrics**

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For the nine months ended June 30, 2013, asset-based revenues and transaction-based revenues accounted for 55% and 42% 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 June 30, | | | Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Increase/ (Decrease) | 2013 | 2012 | Increase/ (Decrease) |
| Avg. interest-earning assets | $ 16,034 | $ 15,219 | $ 815 | $ 15,546 | $ 14,922 | $ 624 |
| Avg. insured deposit account balances | 68,642 | 58,981 | 9,661 | 66,635 | 58,709 | 7,926 |
| Avg. spread-based balances | $ 84,676 | $ 74,200 | $ 10,476 | $ 82,181 | $ 73,631 | $ 8,550 |
| Net interest revenue | $ 120 | $ 118 | $ 2 | $ 351 | $ 334 | $ 17 |
| Insured deposit account fee revenue | 199 | 206 | (7) | 604 | 621 | (17) |
| Spread-based revenue | $ 319 | $ 324 | $ (5) | $ 955 | $ 955 | $ |
| Avg. annualized yield - interest-earning assets | 2.95% | 3.08% | (0.13%) | 2.97% | 2.94% | 0.03% |
| Avg. annualized yield - insured deposit account fees | 1.15% | 1.38% | (0.23%) | 1.19% | 1.39% | (0.20%) |
| Net interest margin (NIM) | 1.49% | 1.73% | (0.24%) | 1.53% | 1.70% | (0.17%) |

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 June 30, | | | Interest Revenue (Expense) Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Increase/ (Decrease) | 2013 | 2012 | Increase/ (Decrease) |
| Segregated cash | $ 1 | $ 1 | $ | $ 4 | $ 2 | $ 2 |
| Client margin balances | 85 | 91 | (6) | 259 | 258 | 1 |
| Securities lending/borrowing, net | 34 | 26 | 8 | 88 | 74 | 14 |
| Other cash and interest-earning investments | | | | 1 | 1 | |
| Client credit balances | | | | (1) | (1) | |
| Net interest revenue | $ 120 | $ 118 | $ 2 | $ 351 | $ 334 | $ 17 |

| | Average Balance Three months ended June 30, | | % | Average Balance Nine months ended June 30, | | % |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Segregated cash | $ 4,698 | $ 4,037 | 16% | $ 4,333 | $ 4,577 | (5%) |
| Client margin balances | 8,575 | 8,731 | (2%) | 8,591 | 8,119 | 6% |
| Securities borrowing | 1,191 | 879 | 35% | 1,033 | 748 | 38% |
| Other cash and interest-earning investments | 1,570 | 1,572 | (0%) | 1,589 | 1,478 | 8% |
| Interest-earning assets | $ 16,034 | $ 15,219 | 5% | $ 15,546 | $ 14,922 | 4% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Client credit balances | $ 9,430 | $ 9,139 | 3% | $ 9,240 | $ 9,341 | (1%) |
| Securities lending | 2,273 | 2,301 | (1%) | 2,116 | 1,947 | 9% |
| Interest-bearing liabilities | $ 11,703 | $ 11,440 | 2% | $ 11,356 | $ 11,288 | 1% |

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| | Avg. Annualized Yield (Cost) Three months ended June 30, | | | Avg. Annualized Yield (Cost) Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Net Yield Increase/ (Decrease) | 2013 | 2012 | Net Yield Increase/ (Decrease) |
| Segregated cash | 0.11% | 0.10% | 0.01% | 0.13% | 0.07% | 0.06% |
| Client margin balances | 3.91% | 4.13% | (0.22%) | 3.97% | 4.17% | (0.20%) |
| Other cash and interest-earning investments | 0.11% | 0.06% | 0.05% | 0.08% | 0.09% | (0.01%) |
| Client credit balances | (0.01%) | (0.01%) | 0.00% | (0.01%) | (0.01%) | 0.00% |
| Net interest revenue | 2.95% | 3.08% | (0.13%) | 2.97% | 2.94% | 0.03% |

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

| | Fee Revenue Three months ended June 30, | | | Fee Revenue Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Increase/ (Decrease) | 2013 | 2012 | Increase/ (Decrease) |
| Money market mutual fund | $ | $ 1 | $ (1) | $ 1 | $ 3 | $ (2) |
| Market fee-based investment balances | 65 | 53 | 12 | 181 | 141 | 40 |
| Total investment product fees | $ 65 | $ 54 | $ 11 | $ 182 | $ 144 | $ 38 |

| | Average Balance Three months ended June 30, | | | Average Balance Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Money market mutual fund | $ 5,103 | $ 4,851 | 5% | $ 5,112 | $ 5,189 | (1%) |
| Market fee-based investment balances | 113,014 | 83,329 | 36% | 104,515 | 78,457 | 33% |
| Total fee-based investment balances | $ 118,117 | $ 88,180 | 34% | $ 109,627 | $ 83,646 | 31% |

| | Average Annualized Yield Three months ended June 30, | | | Average Annualized Yield Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Increase/ (Decrease) | 2013 | 2012 | Increase/ (Decrease) |
| Money market mutual fund | 0.00% | 0.09% | (0.09%) | 0.02% | 0.07% | (0.05%) |
| Market fee-based investment balances | 0.23% | 0.25% | (0.02%) | 0.23% | 0.24% | (0.01%) |
| Total investment product fees | 0.22% | 0.24% | (0.02%) | 0.22% | 0.23% | (0.01%) |

***Transaction-Based Revenue Metrics***

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

| | Three months ended June 30, | | | Nine months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | % Change | 2013 | 2012 | % Change |
| Total trades (in millions) | 25.55 | 22.39 | 14% | 68.61 | 69.39 | (1%) |
| Average commissions and transaction fees per trade [(1)] | $ 12.57 | $ 11.88 | 6% | $ 12.60 | $ 11.98 | 5% |
| Average client trades per day | 399,216 | 355,449 | 12% | 370,874 | 370,081 | 0% |
| Average client trades per funded account (annualized) | 16.8 | 15.5 | 8% | 15.7 | 16.3 | (4%) |
| Activity rate - funded accounts | 6.7% | 6.2% | 8% | 6.3% | 6.5% | (3%) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Trading days | 64.0 | 63.0 | 2% | 185.0 | 187.5 | (1%) |

(1) Average commissions and transaction fees per trade excludes the TD Waterhouse UK business.

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***Client Account and Client Asset Metrics***

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

| | Three months ended June 30, | | % | Nine months ended June 30, | | % |
|---|---|---|---|---|---|---|
| | **2013** | **2012** | **Change** | **2013** | **2012** | **Change** |
| New accounts opened | 195,000 | 171,000 | 14% | 565,000 | 494,000 | 14% |
| Funded accounts (beginning of period) | 5,880,000 | 5,703,000 | 3% | 5,764,000 | 5,617,000 | 3% |
| Funded accounts (end of period) | 5,943,000 | 5,736,000 | 4% | 5,943,000 | 5,736,000 | 4% |
| Percentage change during period | 1% | 1% | | 3% | 2% | |
| Client assets (beginning of period, in billions) | $ 516.8 | $ 452.4 | 14% | $ 472.3 | $ 378.7 | 25% |
| Client assets (end of period, in billions) | $ 523.5 | $ 445.0 | 18% | $ 523.5 | $ 445.0 | 18% |
| Percentage change during period | 1% | (2%) | | 11% | 18% | |
| Net new assets (in billions) | $ 10.8 | $ 9.7 | 11% | $ 39.4 | $ 30.7 | 28% |
| Net new assets annualized growth rate[(1)] | 8% | 9% | | 11% | 11% | |

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

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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 June 30, | | % | Nine months ended June 30, | | % |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Revenues: | | | | | | |
| Transaction-based revenues: | | | | | | |
| Commissions and transaction fees | $ 321 | $ 266 | 21% | $ 865 | $ 832 | 4% |
| Asset-based revenues: | | | | | | |
| Interest revenue | 122 | 120 | 2% | 356 | 339 | 5% |
| Brokerage interest expense | (2) | (2) | 0% | (5) | (5) | 0% |
| Net interest revenue | 120 | 118 | 2% | 351 | 334 | 5% |
| Insured deposit account fees | 199 | 206 | (3%) | 604 | 621 | (3%) |
| Investment product fees | 65 | 54 | 20% | 182 | 144 | 26% |
| Total asset-based revenues | 384 | 378 | 2% | 1,137 | 1,099 | 3% |
| Other revenues | 20 | 23 | (13%) | 53 | 63 | (16%) |
| Net revenues | 725 | 667 | 9% | 2,055 | 1,994 | 3% |
| Operating expenses: | | | | | | |
| Employee compensation and benefits | 176 | 176 | 0% | 522 | 524 | (0%) |
| Clearing and execution costs | 30 | 22 | 36% | 81 | 66 | 23% |
| Communications | 28 | 29 | (3%) | 85 | 83 | 2% |
| Occupancy and equipment costs | 42 | 36 | 17% | 121 | 111 | 9% |
| Depreciation and amortization | 22 | 18 | 22% | 63 | 53 | 19% |
| Amortization of acquired intangible assets | 23 | 23 | 0% | 68 | 69 | (1%) |
| Professional services | 36 | 40 | (10%) | 103 | 129 | (20%) |
| Advertising | 56 | 50 | 12% | 184 | 191 | (4%) |
| Other | 14 | 19 | (26%) | 52 | 66 | (21%) |
| Total operating expenses | 427 | 413 | 3% | 1,279 | 1,292 | (1%) |
| Operating income | 298 | 254 | 17% | 776 | 702 | 11% |
| Other expense (income): | | | | | | |
| Interest on borrowings | 6 | 7 | (14%) | 19 | 22 | (14%) |
| Gain on sale of investments | (6) | | N/A | (8) | | N/A |
| Total other expense (income) | | 7 | (100%) | 11 | 22 | (50%) |
| Pre-tax income | 298 | 247 | 21% | 765 | 680 | 13% |
| Provision for income taxes | 114 | 93 | 23% | 291 | 238 | 22% |
| Net income | $ 184 | $ 154 | 19% | $ 474 | $ 442 | 7% |
| Other information: | | | | | | |
| Effective income tax rate | 38.3% | 37.7% | | 38.0% | 35.0% | |
| Average debt outstanding | $ 1,139 | $ 1,257 | (9%) | $ 1,188 | $ 1,258 | (6%) |

| | | | | |
|---|---|---|---|---|
| Average interest rate incurred on borrowings | 2.05% | 2.16% | 2.07% | 2.14% |

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**Three-Month Periods Ended June 30, 2013 and 2012**

**Net Revenues**

Commissions and transaction fees increased 21% to $321 million, primarily due to increased client trading activity and higher average commissions and transaction fees per trade. Total trades increased 14%, as average client trades per day increased 12% to 399,216 for the third quarter of fiscal 2013 compared to 355,449 for the third quarter of fiscal 2012, and there was one more trading day during the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. Average client trades per funded account (annualized) were 16.8 for the third quarter of fiscal 2013 compared to 15.5 for the third quarter of fiscal 2012. Average commissions and transaction fees per trade increased to $12.57 for the third quarter of fiscal 2013 from $11.88 for the third quarter of fiscal 2012, primarily due to higher payment for order flow revenue per trade and, to a lesser extent, a higher percentage of option trades, which earn higher average commissions and transaction fees per trade.

Asset-based revenues, which consists of net interest revenue, insured deposit account fees and investment product fees, increased 2% to $384 million for the third quarter of fiscal 2013, primarily due to a 36% increase in average market fee-based investment balances and a 14% increase in average spread-based assets, partially offset by a decrease of 24 basis points in the net interest margin earned on spread-based assets and a decrease of 2 basis points in the average yield earned on market fee-based investment balances. Our net interest margin was 1.49% for the third quarter of fiscal 2013, compared to 1.73% for the third quarter of the prior year. The following paragraphs provide further analysis of the components of asset-based revenues.

Net interest revenue increased 2% to $120 million, due primarily to an $8 million increase in net interest revenue from our securities borrowing/lending program, partially offset by a decrease of 22 basis points in the average yield earned on client margin balances and a 2% decrease in average client margin balances during the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012.

Insured deposit account fees decreased 3% to $199 million, primarily due to a decrease of 23 basis points in the average yield earned on the IDA assets, partially offset by a 16% increase in average client IDA balances during the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. The increased IDA balances are mostly due to our success in attracting net new client assets over the past year and, to a lesser extent, due to our strategy of migrating client cash held in client credit balances or swept to money market mutual funds to the IDA offering. During the first quarter of fiscal 2012, we moved approximately $3 billion of client cash out of money market mutual funds, consisting of approximately $1 billion that was moved directly to insured deposit accounts and $2 billion that was initially moved to client credit balances and was subsequently moved to insured deposit accounts during the third quarter of fiscal 2012. We expect our migration strategy to position the Company to earn higher net revenues, as we generally earn a higher yield on IDA balances than on money market mutual fund or client credit balances.

During the third quarter of fiscal 2013, interest rates on 5- to 7-year LIBOR-based swaps increased by approximately 65 to 75 basis points. If such rates were to remain stable at these higher levels, this would prospectively result in most investments in the IDA portfolio no longer being reinvested at lower interest rates upon maturity. However, we expect that, absent further increases in interest rates, the average yield earned on IDA assets will continue to decrease somewhat, as any growth in IDA balances is invested at a shorter average duration and a lower average yield than the existing IDA portfolio. The expected decrease in the average yield earned on IDA assets will be mitigated somewhat by the terms of the new IDA agreement, which became effective as of January 1, 2013. Compared to the old IDA agreement, the new IDA agreement will improve the average yield earned on the IDA assets during a low interest rate environment, due primarily to lower servicing fees on floating-rate and short-term fixed rate assets in the IDA portfolio. During the third quarter of fiscal 2013, the new IDA agreement favorably impacted the net yield earned on the IDA assets by approximately 4 basis points. However, in the event of a rising interest rate environment under the new IDA agreement, once certain interest rate thresholds are met, the rate earned by the Company on new fixed-rate notional investments in the IDA portfolio will gradually be reduced by up to 10 basis points. Based on economists current interest rate projections, we expect that these interest rate thresholds will not be attained until fiscal 2016, and that reductions in the rate earned by the Company will phase in gradually over a number of years thereafter as investments in the IDA portfolio mature and are reinvested. For more information about the new IDA agreement, please see Note 10 RELATED PARTY TRANSACTIONS under Item 1, Financial Statements Notes to Condensed Consolidated Financial Statements.

Investment product fees increased 20% to $65 million, primarily due to a 36% increase in average market fee-based investment balances, partially offset by a decrease of 2 basis points in the average yield earned on those balances for the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012.

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Other revenues decreased 13% to $20 million, due primarily to lower client education revenue, partially offset by increased fees from processing corporate securities reorganizations for the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012.

**Operating Expenses**

Employee compensation and benefits expense was unchanged at $176 million. Higher incentive-based compensation related to Company and individual performance, including our continued success in attracting net new client assets during the third quarter of fiscal 2013, was offset by higher stock-based compensation expense during the third quarter of the prior year due to the effect of retirement eligibility provisions in certain stock award agreements.

Clearing and execution costs increased 36% to $30 million, primarily due to higher futures and option trade execution costs resulting from increased client futures and option trading activity and increased client statement processing costs.

Occupancy and equipment costs increased 17% to $42 million, primarily due to costs associated with exiting our previous headquarters building and placing our new Omaha corporate campus in service during the third quarter of fiscal 2013.

Depreciation and amortization increased 22% to $22 million, primarily due to depreciation on our new Omaha corporate campus, which was placed in service in April 2013, and recent technology infrastructure upgrades.

Professional services decreased 10% to $36 million, primarily due to lower usage of consulting and contract services.

Advertising expense increased 12% to $56 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 expense decreased 26% to $14 million, primarily due to lower bad debt, litigation and arbitration expenses.

**Income Taxes**

Our effective income tax rate was 38.3% for the third quarter of fiscal 2013, compared to 37.7% for the third quarter of fiscal 2012. We expect our effective income tax rate to range from 38% to 39% for the remainder of fiscal 2013, 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.

**Nine-Month Periods Ended June 30, 2013 and 2012**

**Net Revenues**

Commissions and transaction fees increased 4% to $865 million, primarily due to higher average commissions and transaction fees per trade, partially offset by the effect of 2.5 fewer trading days during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. Average commissions and transaction fees per trade increased to $12.60 for the first nine months of fiscal 2013 from $11.98 for the first nine months of fiscal 2012, primarily due to higher payment for order flow revenue per trade and, to a lesser extent, a higher percentage of option trades, which earn higher average commissions and transaction fees per trade. Two trading days were lost during the first quarter of fiscal 2013 due to unscheduled market closures resulting from Hurricane Sandy. Average client trades per funded account (annualized) were 15.7 for the first nine months of fiscal 2013 compared to 16.3 for the first nine months of fiscal 2012.

Asset-based revenues increased 3% to $1.14 billion for the first nine months of fiscal 2013, primarily due to a 33% increase in average market fee-based investment balances and a 12% increase in average spread-based assets, partially offset by a decrease of 17 basis points in the net interest margin earned on spread-based assets, a decrease of 1 basis point in the average yield earned on market fee-based investment balances and the effect of one less interest day during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. Our net

interest margin was 1.53% for the first nine months of fiscal 2013, compared to 1.70% for the first nine months of the prior year. The following paragraphs provide further analysis of the components of asset-based revenues.

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Net interest revenue increased 5% to $351 million, due primarily to a 6% increase in average client margin balances and a $14 million increase in net interest revenue from our securities borrowing/lending program, partially offset by a decrease of 20 basis points in the average yield earned on client margin balances and the effect of one less interest day during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012.

Insured deposit account fees decreased 3% to $604 million, primarily due to a decrease of 20 basis points in the average yield earned on the IDA assets and the effect of one less interest day during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012, partially offset by a 14% increase in average client IDA balances during the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012. The increased IDA balances are mostly due to our success in attracting net new client assets over the past year and, to a lesser extent, due to our strategy of migrating client cash held in client credit balances or swept to money market mutual funds to the IDA offering. During the first quarter of fiscal 2012, we moved approximately $3 billion of client cash out of money market mutual funds, consisting of approximately $1 billion that was moved directly to insured deposit accounts and $2 billion that was initially moved to client credit balances and was subsequently moved to insured deposit accounts during the third quarter of fiscal 2012.

Investment product fees increased 26% to $182 million, primarily due to a 33% increase in average market fee-based investment balances, partially offset by a decrease of 1 basis point in the average yield earned on those balances for the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012.

Other revenues decreased 16% to $53 million, due primarily to lower client education revenue, partially offset by increased fees from processing corporate securities reorganizations for the first nine months of fiscal 2013 compared to the first nine months of fiscal 2012.

**Operating Expenses**

Employee compensation and benefits expense decreased slightly to $522 million, primarily due to higher costs during the first nine months of the prior year for severance related to staff reductions and for stock-based compensation expense due to the effect of retirement eligibility provisions in certain stock award agreements. These items were mostly offset by higher incentive-based compensation during the first nine months of fiscal 2013 related to Company and individual performance, including our continued success in attracting net new client assets.

Clearing and execution costs increased 23% to $81 million, primarily due to higher futures and option trade execution costs resulting from increased client futures and option trading activity, increased client statement processing costs, and the effect of a favorable adjustment during the first quarter of the prior year related to the thinkorswim clearing conversion.

Occupancy and equipment costs increased 9% to $121 million, primarily due to upgrades to our technology infrastructure and facilities and costs associated with exiting our previous headquarters building and placing our new Omaha corporate campus in service during the third quarter of fiscal 2013.

Depreciation and amortization increased 19% to $63 million, primarily due to depreciation on recent technology infrastructure upgrades and leasehold improvements and on our new Omaha corporate campus, which was placed in service in April 2013.

Professional services decreased 20% to $103 million, primarily due to lower usage of consulting and contract services.

Advertising expense decreased 4% to $184 million, primarily due to lower investor education promotion costs.

Other expense decreased 21% to $52 million, primarily due to lower bad debt expense and the effect of $7 million of losses on disposal of property and equipment related to our discontinued use of certain software and hardware during the second quarter of the prior year.

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**Income Taxes**

Our effective income tax rate was 38.0% for the first nine months of fiscal 2013, compared to 35.0% for the first nine months of fiscal 2012. The effective tax rate for the first nine months of fiscal 2012 was significantly lower than normal primarily due to $19 million of favorable resolutions of state income tax matters. This favorably impacted the Company s earnings for the first nine months of fiscal 2012 by approximately three cents per share.

**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 nine months of fiscal 2013 were financed primarily from our subsidiaries earnings, cash on hand and our parent company s revolving credit facility. We repaid $250 million of 2.950% Senior Notes due December 1, 2012 with cash on hand. We financed our payment of a $0.50 per share special cash dividend on December 31, 2012 by borrowing $275 million on our parent company s revolving credit facility. Through June 30, 2013, we repaid $180 million of the outstanding principal under our parent company s revolving credit facility and we repaid the remaining $95 million balance on July 26, 2013. We funded the final repayment in part using $69 million of cash consideration we received in connection with Knight Capital Group, Inc. s July 1, 2013 merger with GETCO Holding Company, LLC. For more information regarding the Knight-GETCO merger, see Note 11 SUBSEQUENT EVENT under Item 1, Financial Statements Notes to Condensed Consolidated Financial Statements. We plan to finance our capital and liquidity needs during the remainder of fiscal 2013 primarily from our subsidiaries earnings and cash on hand. If a specific need arises, we may also utilize our parent company and/or broker-dealer revolving credit facilities.

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 June 30, 2013, our clearing and introducing broker-dealer subsidiaries had $1,233 million and $251 million of net capital, respectively, which exceeded the early warning net capital thresholds by $710 million and $242 million, respectively.

Our clearing broker-dealer subsidiary, TD Ameritrade Clearing, Inc. ( TDAC ), engages in such activities as settling client securities and options 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.

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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. As of June 30, 2013, TDAC had $200 million of cash and investments deposited with clearing organizations for the clearing of client equity and option trades.

TDAC s liquidity needs relating to client trading and margin borrowing are met primarily through cash balances in client brokerage accounts, which were $11.5 billion as of June 30, 2013. 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. At June 30, 2013, TDAC had $5.6 billion of cash and investments segregated in special reserve bank accounts for the exclusive benefit of clients under Rule 15c3-3.

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 June 30, 2013.

**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 and trust company subsidiaries in the calculation of our liquid assets metrics, rather than simply including broker-dealer and trust company cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the broker-dealer and trust company subsidiaries to the parent company. Excess capital, as defined below, is generally available for dividend from the broker-dealer 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 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 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 | | |
|---|---|---|---|---|---|---|
| | June 30, 2013 | Sept. 30, 2012 | Change | June 30, 2013 | Sept. 30, 2012 | Change |
| Cash and cash equivalents | $ 963 | $ 915 | $ 48 | $ 963 | $ 915 | $ 48 |
| Less: Broker-dealer cash and cash equivalents | (555) | (406) | (149) | (555) | (406) | (149) |
| Trust company cash and cash equivalents | (39) | (95) | 56 | (39) | (95) | 56 |
| Investment advisory cash and cash equivalents | (28) | (11) | (17) | (28) | (11) | (17) |
| Corporate cash and cash equivalents | 341 | 403 | (62) | 341 | 403 | (62) |
| Plus: Corporate short-term investments | | 150 | (150) | | 150 | (150) |
| Excess trust company Tier 1 capital | | | | 8 | 10 | (2) |
| Excess broker-dealer regulatory net capital | 387 | 501 | (114) | 952 | 1,048 | (96) |
| Liquid assets | $ 728 | $ 1,054 | $ (326) | $ 1,301 | $ 1,611 | $ (310) |

The decrease in liquid assets is summarized as follows (dollars in millions):

| | Liquid Assets | |
|---|---|---|
| | Management Target | Regulatory Threshold |
| Liquid assets as of September 30, 2012 | $ 1,054 | $ 1,611 |
| Plus: EBITDA[(1)] | 915 | 915 |
| Proceeds from notes payable | 275 | 275 |
| Proceeds from exercise of stock options | 19 | 19 |
| Proceeds from the sale of investments | 10 | 10 |
| Other investing activities | 2 | 2 |
| Less: Income taxes paid | (259) | (259) |
| Interest paid | (25) | (25) |
| Purchase of property and equipment | (124) | (124) |
| Principal payments on long-term debt | (250) | (250) |
| Principal payments on notes payable | (180) | (180) |
| Payment of cash dividends | (421) | (421) |
| Purchase of treasury stock | (5) | (5) |
| Principal payments on capital lease obligations | (2) | (2) |
| Additional net capital requirement due to increase in aggregate debits | (34) | (18) |
| Other changes in working capital and regulatory net capital | (247) | (247) |
| Liquid assets as of June 30, 2013 | $ 728 | $ 1,301 |

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

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**Loan Facilities**

*Senior Notes* During December 2012, we repaid our $250 million of 2.950% Senior Notes due December 1, 2012 with cash on hand.

*TD Ameritrade Holding Corporation Credit Agreement* On December 28, 2012, we borrowed $275 million under the TD Ameritrade Holding Corporation (the Parent ) senior unsecured revolving credit facility (the Parent Revolving Facility ). We used the proceeds to fund a $0.50 per share special cash dividend, paid on our common stock on December 31, 2012. Through June 30, 2013, we repaid $180 million of the borrowings and we repaid in full the remaining $95 million balance on July 26, 2013. The maturity date of the Parent Revolving Facility is June 28, 2014. Interest is payable monthly based on one-month LIBOR plus an interest rate margin. As of June 30, 2013, the interest rate margin was 1.25%, determined by reference to the Parent s public debt ratings, and the interest rate was 1.45%.

**Cash Dividends**

We declared a $0.09 per share quarterly cash dividend on our common stock during each quarter of fiscal 2013. We also declared and paid a $0.50 per share special cash dividend on our common stock during the first quarter of fiscal 2013. We paid a total of $421 million to fund the quarterly and special cash dividends declared during the first nine months of fiscal 2013. We expect to pay approximately $50 million on August 15, 2013 to fund the $0.09 per share fourth quarter dividend.

**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 10 RELATED PARTY TRANSACTIONS. The IDA agreement accounts for a significant percentage of our net revenues (29% of our net revenues for the nine months ended June 30, 2013) 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. In addition, you may automatically receive email alerts and other information about the Company when you subscribe to news feeds at www.amtd.com/newsroom.

**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.

The interest rate swaps on our Senior Notes are subject to counterparty credit risk. Credit risk on derivative financial instruments is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold and by entering into credit support agreements. The bilateral credit support agreements related to 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.

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**Interest Rate Risk**

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

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

We use net interest simulation modeling techniques to evaluate the effect that changes in interest rates might have on pre-tax income. Our model includes all interest-sensitive assets and liabilities of the Company and interest-sensitive assets and liabilities associated with the insured deposit account 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 June 30, 2013 indicate that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in approximately $108 million higher pre-tax income, while a gradual 1% (100 basis points) decrease in interest rates over a 12-month period would result in approximately $28 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.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

Management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2013. Management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2013.

**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**

*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.

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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 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. Accounting Standards Codification ( 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 $50 million as of June 30, 2013. 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.

**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, as amended, for the year ended September 30, 2012, 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.

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There have been no material changes from the risk factors disclosed in the Company s Form 10-K, as amended, for the fiscal year ended September 30, 2012.

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

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| April 1, 2013 - April 30, 2013 | 5,110 | $ 19.51 | | 24,920,000 |
| May 1, 2013 - May 31, 2013 | 1,753 | $ 21.94 | | 24,920,000 |
| June 1, 2013 - June 30, 2013 | 18,427 | $ 23.61 | | 24,920,000 |
| Total - Three months ended June 30, 2013 | 25,290 | $ 22.66 | | 24,920,000 |

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 third quarter of fiscal 2013.

During the quarter ended June 30, 2013, 25,290 shares were repurchased from employees for income tax withholding in connection with distributions of stock-based compensation.

**Item 6. Exhibits**

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

| | |
|---|---|
| 101.PRE | XBRL Taxonomy Extension Presentation |
| 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: August 7, 2013

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)*