TD AMERITRADE HOLDING CORP
Form 10-Q
May 06, 2013
Table of Contents

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 March 31, 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)

4211 South 102nd Street, Omaha, Nebraska 68127

(Former address)

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 April 29, 2013, there were 550,175,447 outstanding shares of the registrant s common stock.

Table of Contents

TD AMERITRADE HOLDING CORPORATION

INDEX

Table of Contents

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 March 31, 2013, the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended March 31, 2013 and 2012, and the condensed consolidated statements of cash flows for the six-month periods ended March 31, 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

May 6, 2013

Table of Contents

TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2013	September 30, 2012
	(In millions)	
ASSETS		
Cash and cash equivalents	$ 1,218	$ 915
Short-term investments	4	154
Cash and investments segregated and on deposit for regulatory purposes	4,384	4,030
Receivable from brokers, dealers and clearing organizations	1,299	1,110
Receivable from clients, net	8,850	8,647
Receivable from affiliates	136	85
Other receivables, net	129	118
Securities owned, at fair value	363	343
Investments available-for-sale, at fair value	97	70
Property and equipment at cost, net	494	444
Goodwill	2,467	2,467
Acquired intangible assets, net	887	932
Deferred income taxes	2	2
Other assets	190	196
Total assets	$ 20,520	$ 19,513
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 2,316	$ 1,992
Payable to clients	11,517	10,728
Accounts payable and accrued liabilities	624	632
Payable to affiliates	5	4
Notes payable	165	
Deferred revenue	20	28
Long-term debt	1,079	1,345
Capitalized lease obligations	4	5
Deferred income taxes	378	354
Total liabilities	16,108	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; March 31, 2013 - 550 million shares outstanding; September 30, 2012 - 545 million shares outstanding	6	6
Additional paid-in capital	1,579	1,587
Retained earnings	4,019	4,100
Treasury stock, common, at cost: March 31, 2013 - 81 million shares; September 30, 2012 - 86 million shares	(1,227)	(1,286)
Net unrealized gain on investments available-for-sale	35	18
Total stockholders equity	4,412	4,425

Total liabilities and stockholders equity	$ 20,520	$ 19,513

See notes to condensed consolidated financial statements.

Table of Contents

TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended March 31, 2013	2012	Six Months Ended March 31, 2013	2012
	(In millions, except per share amounts)			
Revenues:				
Transaction-based revenues:				
Commissions and transaction fees	$ 287	$ 292	$ 544	$ 566
Asset-based revenues:				
Interest revenue	116	108	234	219
Brokerage interest expense	(2)	(1)	(3)	(3)
Net interest revenue	114	107	231	216
Insured deposit account fees	200	209	405	414
Investment product fees	62	46	117	90
Total asset-based revenues	376	362	753	720
Other revenues	16	19	33	41
Net revenues	679	673	1,330	1,327
Operating expenses:				
Employee compensation and benefits	178	174	346	347
Clearing and execution costs	27	24	51	44
Communications	29	27	57	55
Occupancy and equipment costs	40	37	79	75
Depreciation and amortization	20	18	41	35
Amortization of acquired intangible assets	22	23	45	46
Professional services	33	44	67	89
Advertising	76	84	128	140
Other	17	23	38	48
Total operating expenses	442	454	852	879
Operating income	237	219	478	448
Other expense (income):				
Interest on borrowings	6	7	12	14
Gain on sale of investments			(2)	
Total other expense (income)	6	7	10	14
Pre-tax income	231	212	468	434
Provision for income taxes	87	75	177	145

Net income	$ 144	$ 137	$ 291	$ 289
Earnings per share - basic	$ 0.26	$ 0.25	$ 0.53	$ 0.53
Earnings per share - diluted	$ 0.26	$ 0.25	$ 0.53	$ 0.52
Weighted average shares outstanding - basic	549	549	547	549
Weighted average shares outstanding - diluted	554	554	552	555
Dividends declared per share	$ 0.09	$ 0.06	$ 0.68	$ 0.12

See notes to condensed consolidated financial statements.

Table of Contents

TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
	(In millions)			
Net income	$ 144	$ 137	$ 291	$ 289
Other comprehensive income:				
Change in net unrealized gain on investments available-for-sale:				
Net unrealized gain	6		27	
Income tax effect	(2)		(10)	
Total other comprehensive income	4		17	
Comprehensive income	$ 148	$ 137	$ 308	$ 289

See notes to condensed consolidated financial statements.

Table of Contents

TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended March 31, 2013	2012
	(In millions)	
Cash flows from operating activities:		
Net income	$ 291	$ 289
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41	35
Amortization of acquired intangible assets	45	46
Deferred income taxes	14	22
Gain on sale of investments	(2)	
Stock-based compensation	15	18
Excess tax benefits on stock-based compensation	(24)	(15)
Other, net	(1)	6
Changes in operating assets and liabilities:		
Cash and investments segregated and on deposit for regulatory purposes	(354)	(2,956)
Receivable from brokers, dealers and clearing organizations	(189)	(541)
Receivable from clients, net	(203)	(518)
Receivable from/payable to affiliates, net	(50)	10
Other receivables, net	(11)	(3)
Securities owned	(20)	72
Other assets	(10)	5
Payable to brokers, dealers and clearing organizations	324	636
Payable to clients	789	3,184
Accounts payable and accrued liabilities	13	13
Deferred revenue	(8)	(5)
Net cash provided by operating activities	660	298
Cash flows from investing activities:		
Purchase of property and equipment	(92)	(77)
Purchase of short-term investments		(50)
Proceeds from sale and maturity of short-term investments	150	
Proceeds from sale of investments	3	
Other	1	1
Net cash provided by (used in) investing activities	62	(126)

See notes to condensed consolidated financial statements.

Table of Contents

TD AMERITRADE HOLDING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

	Six Months Ended March 31, 2013	Six Months Ended March 31, 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	(110)	
Payment of cash dividends	(372)	(66)
Proceeds from exercise of stock options; Six months ended March 31, 2013 - 4.6 million shares; 2012 - 1.2 million shares	19	5
Purchase of treasury stock; Six months ended March 31, 2013 - 0.2 million shares; 2012 - 8.0 million shares	(4)	(130)
Principal payments on capital lease obligations	(1)	(2)
Excess tax benefits on stock-based compensation	24	15
Net cash used in financing activities	(419)	(178)
Net increase (decrease) in cash and cash equivalents	303	(6)
Cash and cash equivalents at beginning of period	915	1,032
Cash and cash equivalents at end of period	$ 1,218	$ 1,026
Supplemental cash flow information:		
Interest paid	$ 16	$ 17
Income taxes paid	$ 103	$ 100

See notes to condensed consolidated financial statements.

Table of Contents

TD AMERITRADE HOLDING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three-Month and Six-Month Periods Ended March 31, 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):

	March 31, 2013	September 30, 2012
Corporate	$ 391	$ 403
Broker-dealer subsidiaries	719	406
Trust company subsidiary	84	95
Investment advisory subsidiaries	24	11
Total	$ 1,218	$ 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.

Table of Contents

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):

	March 31, 2013	September 30, 2012
Reverse repurchase agreements (collateralized by U.S. government debt securities)	$ 2,476	$ 2,181
U.S. government debt securities	1,724	1,564
Cash in demand deposit accounts	28	179
Cash on deposit with futures commission merchant	105	96
U.S. government debt securities on deposit with futures commission merchant	51	10
Total	$ 4,384	$ 4,030

4. INCOME TAXES

The Company s effective income tax rate for the six months ended March 31, 2013 was 37.8%, compared to 33.4% for the six months ended March 31, 2012. The provision for income taxes for the six months ended March 31, 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 six months ended March 31, 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):

March 31, 2013	Face Value	Unamortized Discount	Fair Value Adjustment (1)	Net Carrying Value
Notes payable:				
Parent Revolving Facility	$ 165	$	$	$ 165
Senior Notes:				
4.150% Senior Notes due 2014	500		21	521
5.600% Senior Notes due 2019	500	(1)	59	558
Subtotal - Long-term debt	1,000	(1)	80	1,079
Total notes payable and long-term debt	$ 1,165	$ (1)	$ 80	$ 1,244

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

Table of Contents

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 March 31, 2013, the weighted-average effective interest rate on the Senior Notes was 2.10%.

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 March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Gain (loss) on fair value of interest rate swaps	$ (8)	$ (8)	$ (16)	$ (10)
Gain (loss) on fair value of hedged fixed-rate debt	8	8	16	10
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):

	March 31, 2013	September 30, 2012
Derivatives recorded under the caption Other assets:		
Interest rate swap assets	$ 80	$ 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 March 31, 2013 and September 30, 2012, the interest rate swap counterparties for the Senior Notes had pledged $94 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. During the three months ended March 31, 2013, the Company repaid $110 million of the borrowings. As of March 31, 2013, $165 million of borrowings remained outstanding under the Parent Revolving Facility. 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 March 31, 2013, the interest rate margin was 1.50%, determined by reference to the Company s public debt ratings, and the interest rate was 1.70%.

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.

Table of Contents

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
March 31, 2013	$ 1,215	$ 215	$ 1,000	$ 677	11.29%
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)
March 31, 2013	$ 226	$ 12	$ 214	$ 212
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 $21 million and $20 million as of March 31, 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.

Table of Contents

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 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 $60 million as of March 31, 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.

Table of Contents

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.

Table of Contents

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):

	March 31, 2013	September 30, 2012
Client excess margin securities	$ 12.2	$ 12.0
Stock borrowings	1.2	0.9
Total collateral available	$ 13.4	$ 12.9
Collateral loaned	$ 2.3	$ 1.9
Collateral repledged	1.6	1.2
Total collateral loaned or repledged	$ 3.9	$ 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):

	March 31, 2013	September 30, 2012
Cash	$ 120	$ 121
U.S. government debt securities	60	56
Total	$ 180	$ 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

Table of Contents

obtained from sources independent of the Company. Unobservable inputs reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

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

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. This category includes active exchange-traded funds, money market mutual funds, mutual funds and equity securities.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Such inputs include quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active and inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. This category includes most debt securities and other interest-sensitive financial instruments. This category also includes convertible preferred equity securities for which the fair value is 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 March 31, 2013 and September 30, 2012 (dollars in millions):

	As of March 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Fair Value**
Assets:				
Cash equivalents:				
Money market mutual funds	$ 1,026	$	$	$ 1,026
Short-term investments:				
U.S. government debt securities		4		4
Investments segregated for regulatory purposes:				
U.S. government debt securities		1,775		1,775
Securities owned:				
Auction rate securities			5	5
Money market and other mutual funds			1	1
U.S. government debt securities		352		352
Other	1	4		5
Subtotal - Securities owned	1	356	6	363
Investments available-for-sale:				
Equity securities	97			97
Other assets:				
Interest rate swaps[1]		80		80
Total assets at fair value	$ 1,124	$ 2,215	$ 6	$ 3,345

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.

Table of Contents

	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.

Table of Contents

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 six months ended March 31, 2013 and 2012 (dollars in millions):

	Three Months Ended			
	March 31, 2013		March 31, 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	$ 8	$ 1
Settlements	(1)		(1)	
Balance, ending of period	$ 5	$ 1	$ 7	$ 1

	Six Months Ended			
	March 31, 2013		March 31, 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)		(11)	
Balance, ending of period	$ 5	$ 1	$ 7	$ 1

There were no nonfinancial assets or liabilities measured at fair value during the three months and six months ended March 31, 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.

Table of Contents

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 March 31, 2013 and September 30, 2012:

Asset	Valuation Technique	Unobservable Input	Range	Weighted Average
Auction Rate	Discounted	Constant prepayment rate (Annual)	15% - 20%	17%
Securities	cash flow	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 March 31, 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 $1.128 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $1.079 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.

Table of Contents

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 March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Net income	$ 144	$ 137	$ 291	$ 289
Weighted average shares outstanding - basic	549	549	547	549
Effect of dilutive securities:				
Common stock equivalent shares related to stock-based compensation	5	5	5	6
Weighted average shares outstanding - diluted (1)	554	554	552	555
Earnings per share - basic	$ 0.26	$ 0.25	$ 0.53	$ 0.53
Earnings per share - diluted	$ 0.26	$ 0.25	$ 0.53	$ 0.52

(1) The Company excluded from the calculation of diluted earnings per share 0.2 million and 2.5 million shares underlying stock-based compensation awards for the three months ended March 31, 2013 and 2012, respectively, and 1.4 million and 2.5 million shares underlying stock-based compensation awards for the six months ended March 31, 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 45% of the Company s common stock as of March 31, 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.

Table of Contents

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 March 31, 2013, the IDA portfolio was comprised of approximately 84% fixed-rate notional investments and 16% 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.

Table of Contents

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 March 31,		Six months ended March 31,	
Description	**Statement of Income Classification**	**2013**	**2012**	**2013**	**2012**
Insured Deposit Account Agreement	Insured deposit account fees	$ 200	$ 209	$ 405	$ 414
Mutual Fund Agreements	Investment product fees		1	1	2
Referral and Strategic Alliance Agreement	Various	3	2	5	3
Securities borrowing and lending, net	Net interest revenue			1	1
Other	Various		1	1	2
Total revenues		$ 203	$ 213	$ 413	$ 422

		Expenses to TD and Affiliates			
		Three months ended March 31,		Six months ended March 31,	
Description	**Statement of Income Classification**	**2013**	**2012**	**2013**	**2012**
Canadian Call Center Services Agreement	Professional services	$ 4	$ 5	$ 9	$ 9
Other	Various	2	1	2	3
Total expenses		$ 6	$ 6	$ 11	$ 12

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):

	March 31, 2013	**September 30, 2012**
Assets:		
Receivable from brokers, dealers and clearing organizations	$ 2	$ 1
Receivable from affiliates	136	85
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 65	$ 125
Payable to affiliates	5	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.

Table of Contents

11. 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 MARCH 31, 2013

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries (In millions)	Eliminations	Total
ASSETS					
Cash and cash equivalents	$ 146	$ 6	$ 1,066	$	$ 1,218
Short-term investments			4		4
Cash and investments segregated and on deposit for regulatory purposes			4,384		4,384
Receivable from brokers, dealers and clearing organizations			1,299		1,299
Receivable from clients, net			8,850		8,850
Investments in subsidiaries	5,476	5,260	544	(11,280)	
Receivable from affiliates	2	3	133	(2)	136
Goodwill			2,467		2,467
Acquired intangible assets, net		146	741		887
Other, net	225	8	1,056	(14)	1,275
Total assets	$ 5,849	$ 5,423	$ 20,544	$ (11,296)	$ 20,520
LIABILITIES AND STOCKHOLDERS EQUITY					
Liabilities:					
Payable to brokers, dealers and clearing organizations	$	$	$ 2,316	$	$ 2,316
Payable to clients			11,517		11,517
Accounts payable and accrued liabilities	193		439	(8)	624
Payable to affiliates			7	(2)	5
Notes payable	165				165
Long-term debt	1,079				1,079
Other		50	358	(6)	402
Total liabilities	1,437	50	14,637	(16)	16,108
Stockholders equity	4,412	5,373	5,907	(11,280)	4,412
Total liabilities and stockholders equity	$ 5,849	$ 5,423	$ 20,544	$ (11,296)	$ 20,520

Table of Contents

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2012

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries (In millions)	Eliminations	Total
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

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF INCOME

THREE MONTHS ENDED MARCH 31, 2013

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries (In millions)	Eliminations	Total
Net revenues	$ 4	$	$ 679	$ (4)	$ 679
Operating expenses	3		443	(4)	442
Operating income	1		236		237
Other expense (income)	7		(1)		6
Income (loss) before income taxes and equity in income of subsidiaries	(6)		237		231
Provision for (benefit from) income taxes	(3)		90		87
Income (loss) before equity in income of subsidiaries	(3)		147		144
Equity in income of subsidiaries	147	140	8	(295)	
Net income	$ 144	$ 140	$ 155	$ (295)	$ 144

CONDENSED CONSOLIDATING STATEMENT OF INCOME

THREE MONTHS ENDED MARCH 31, 2012

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries (In millions)	Eliminations	Total
Net revenues	$ 7	$	$ 673	$ (7)	$ 673
Operating expenses	7		454	(7)	454
Operating income			219		219
Other expense	7				7
Income (loss) before income taxes and equity in income of subsidiaries	(7)		219		212
Provision for (benefit from) income taxes	(2)		77		75
Income (loss) before equity in income of subsidiaries	(5)		142		137
Equity in income of subsidiaries	142	139	8	(289)	
Net income	$ 137	$ 139	$ 150	$ (289)	$ 137

Table of Contents

CONDENSED CONSOLIDATING STATEMENT OF INCOME

SIX MONTHS ENDED MARCH 31, 2013

(Unaudited)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
Net revenues	$ 8	$	$ 1,329	$ (7)	$ 1,330
Operating expenses	7		852	(7)	852
Operating income	1		477		478
Other expense (income)	13		(3)		10