TD AMERITRADE HOLDING CORP
Form 10-Q
August 05, 2014

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, 2014
OR
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to
Commission file number: 1-35509

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

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

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

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

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

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

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

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

As of July 29, 2014, there were 547,471,360 outstanding shares of the registrant's common stock.

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PART I – FINANCIAL INFORMATION
Item 1. – Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
TD Ameritrade Holding Corporation

We have reviewed the condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries (the Company) as of June 30, 2014, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended June 30, 2014 and 2013, and the condensed consolidated statements of cash flows for the nine-month periods ended June 30, 2014 and 2013. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries as of September 30, 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified opinion on those consolidated financial statements in our report dated November 22, 2013. In our opinion, the accompanying condensed consolidated balance sheet of TD Ameritrade Holding Corporation and subsidiaries as of September 30, 2013, 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 5, 2014

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TD AMERITRADE HOLDING CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2014	September 30, 2013
	(In millions)	
ASSETS		
Cash and cash equivalents	$1,260	$1,062
Cash and investments segregated and on deposit for regulatory purposes	5,258	5,894
Receivable from brokers, dealers and clearing organizations	1,315	1,348
Receivable from clients, net	11,231	8,984
Receivable from affiliates	116	117
Other receivables, net	128	137
Securities owned, at fair value	371	323
Property and equipment at cost, net	479	497
Goodwill	2,467	2,467
Acquired intangible assets, net	773	841
Other assets	181	166
Total assets	$23,579	$21,836
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Payable to brokers, dealers and clearing organizations	$2,537	$1,973
Payable to clients	14,265	13,183
Accounts payable and accrued liabilities	536	582
Payable to affiliates	5	4
Notes payable	150	—
Deferred revenue	9	14
Long-term debt	1,041	1,052
Deferred income taxes	338	352
Total liabilities	18,881	17,160
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, 2014 - 549 million shares outstanding; September 30, 2013 - 550 million shares outstanding	6	6
Additional paid-in capital	1,610	1,592
Retained earnings	4,406	4,304
Treasury stock, common, at cost: June 30, 2014 - 82 million shares; September 30, 2013 - 81 million shares	(1,309)	(1,226)
Accumulated other comprehensive loss	(15)	—
Total stockholders' equity	4,698	4,676
Total liabilities and stockholders' equity	$23,579	$21,836

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,	
	2014	2013	2014	2013
	(In millions, except per share amounts)			
Revenues:				
Transaction-based revenues:				
Commissions and transaction fees	$317	$321	$1,019	$865
Asset-based revenues:				
Interest revenue	150	122	426	356
Brokerage interest expense	(1)	(2)	(5)	(5)
Net interest revenue	149	120	421	351
Insured deposit account fees	202	199	612	604
Investment product fees	79	65	226	182
Total asset-based revenues	430	384	1,259	1,137
Other revenues	16	20	49	53
Net revenues	763	725	2,327	2,055
Operating expenses:				
Employee compensation and benefits	189	176	565	522
Clearing and execution costs	35	30	98	81
Communications	29	28	84	85
Occupancy and equipment costs	39	42	116	121
Depreciation and amortization	24	22	71	63
Amortization of acquired intangible assets	22	23	68	68
Professional services	42	36	117	103
Advertising	48	56	205	184
Other	19	14	57	52
Total operating expenses	447	427	1,381	1,279
Operating income	316	298	946	776
Other expense (income):				
Interest on borrowings	6	6	18	19
Gain on sale of investments	—	(6)	—	(8)
Total other expense (income)	6	—	18	11
Pre-tax income	310	298	928	765
Provision for income taxes	120	114	352	291
Net income	$190	$184	$576	$474
Earnings per share - basic	$0.34	$0.33	$1.05	$0.86
Earnings per share - diluted	$0.34	$0.33	$1.04	$0.86
Weighted average shares outstanding - basic	551	550	551	548
Weighted average shares outstanding - diluted	555	554	555	553

Dividends declared per share	$0.12	$0.09	$0.86	$0.77

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,	
	2014	2013	2014	2013
	(In millions)			
Net income	$190	$184	$576	$474
Other comprehensive income (loss), before tax:				
Investments available-for-sale:				
Net unrealized gain (loss)	—	(4)	—	23
Cash flow hedging instruments:				
Net unrealized loss	(15)	—	(24)	—
Total other comprehensive income (loss), before tax	(15)	(4)	(24)	23
Income tax effect	6	1	9	(9)
Total other comprehensive income (loss), net of tax	(9)	(3)	(15)	14
Comprehensive income	$181	$181	$561	$488

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, 2014	2013
	(In millions)	
Cash flows from operating activities:		
Net income	$576	$474
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71	63
Amortization of acquired intangible assets	68	68
Deferred income taxes	(5)	13
Gain on sale of investments	—	(8)
Stock-based compensation	24	22
Excess tax benefits on stock-based compensation	(9)	(24)
Other, net	—	(1)
Changes in operating assets and liabilities:		
Cash and investments segregated and on deposit for regulatory purposes	636	(1,749)
Receivable from brokers, dealers and clearing organizations	33	46
Receivable from clients, net	(2,247)	(60)
Receivable from/payable to affiliates, net	2	(17)
Other receivables, net	9	(7)
Securities owned, at fair value	(48)	(5)
Other assets	(40)	(9)
Payable to brokers, dealers and clearing organizations	564	922
Payable to clients	1,082	902
Accounts payable and accrued liabilities	(59)	(68)
Deferred revenue	(5)	(12)
Net cash provided by operating activities	652	550
Cash flows from investing activities:		
Purchase of property and equipment	(54)	(124)
Proceeds from sale and maturity of short-term investments	1	151
Proceeds from sale of investments	13	10
Other, net	—	1
Net cash provided by (used in) investing activities	(40)	38

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, 2014	2013
	(In millions)	
Cash flows from financing activities:		
Principal payments on long-term debt	$—	$(250)
Proceeds from notes payable	230	275
Principal payments on notes payable	(80)	(180)
Payment of cash dividends	(474)	(421)
Proceeds from exercise of stock options: Nine months ended June 30, 2014 - 0.4 million shares; 2013 - 4.6 million shares	7	19
Purchase of treasury stock: Nine months ended June 30, 2014 - 3.5 million shares; 2013 - 0.3 million shares	(106)	(5)
Principal payments on capital lease obligations	—	(2)
Excess tax benefits on stock-based compensation	9	24
Net cash used in financing activities	(414)	(540)
Net increase in cash and cash equivalents	198	48
Cash and cash equivalents at beginning of period	1,062	915
Cash and cash equivalents at end of period	$1,260	$963
Supplemental cash flow information:		
Interest paid	$22	$25
Income taxes paid	$367	$259

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, 2014 and 2013
(Unaudited)

1. BASIS OF PRESENTATION

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

These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, in the opinion of management, reflect all adjustments, which are all of a normal recurring nature, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with U.S. generally accepted accounting principles ("GAAP"). These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s annual report filed on Form 10-K for the fiscal year ended September 30, 2013.

Recently Adopted Accounting Pronouncements

ASU 2011-11 — On October 1, 2013 the Company retrospectively adopted, for all comparative periods presented, Accounting Standards Update (“ASU”) 2011-11, Disclosures about Offsetting Assets and Liabilities, and ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in these ASUs enhance disclosures by requiring additional information about financial and derivative instruments, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either (1) offset (netting assets and liabilities) in accordance with Section 210-20-45 or Section 815-10-45 of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (“ASC”) or (2) subject to an enforceable master netting arrangement or similar agreement. Adoption of ASU 2011-11 and ASU 2013-01 resulted only in the additional disclosures presented in Note 9.

Recently Issued Accounting Pronouncements

ASU 2014-09 — In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, to clarify the principles of recognizing revenue from contracts with customers and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. This ASU will supersede the revenue recognition requirements in ASC Topic 605, Revenue Recognition and most industry-specific guidance. Entities are required to apply the following steps when recognizing revenue under ASU 2014-09: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and, (5) recognize revenue when (or as) the entity satisfies a performance obligation. This ASU also requires additional disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. An entity may apply the amendments in ASU 2014-09 by using one of the following two methods: (1) retrospective application to each prior reporting period presented or (2) a modified retrospective approach, requiring the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Therefore, ASU 2014-09 will be effective for the Company's fiscal year beginning October 1, 2017. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2014-09 will have on the Company's financial statements and evaluating which adoption method to apply.

ASU 2014-11 — In June 2014, the FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in ASU 2014-11 will require entities to account for repurchase-to-maturity transactions and linked repurchase financings as secured borrowings, which is consistent with the accounting for other repurchase agreements. The amendments also require new disclosures, including information regarding collateral pledged in securities lending transactions and similar transactions that are accounted for as secured borrowings. The accounting changes in ASU 2014-11 are effective for the first interim or annual period beginning after December 15, 2014, and the new disclosures related to collateral pledged in transactions that are accounted for as secured borrowings are required to be presented for annual periods beginning after December 15, 2014 and for interim periods beginning after March 15, 2015. Because the Company does not act as a transferor in repurchase-to-maturity transactions or linked repurchase financings, the Company's adoption of ASU 2014-11 is not expected to result in any accounting changes. The new disclosure requirements of ASU 2014-11 will be effective for the Company's fiscal quarter beginning April 1, 2015.

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2. CASH AND CASH EQUIVALENTS

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

	June 30, 2014	September 30, 2013
Corporate	$326	$429
Broker-dealer subsidiaries	871	540
Trust company subsidiary	54	74
Investment advisory subsidiaries	9	19
Total	$1,260	$1,062

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.

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, 2014	September 30, 2013
Reverse repurchase agreements (collateralized by U.S. government debt securities)	$1,494	$2,618
U.S. government debt securities	2,926	1,995
Cash in demand deposit accounts	617	1,154
Cash on deposit with futures commission merchant	171	77
U.S. government debt securities on deposit with futures commission merchant	50	50
Total	$5,258	$5,894

4. INCOME TAXES

The Company's effective income tax rate for the nine months ended June 30, 2014 was 37.9%, compared to 38.0% for the nine months ended June 30, 2013. The provision for income taxes for the nine months ended June 30, 2014 includes $9 million of favorable resolutions of state income tax matters, partially offset by $2 million of unfavorable deferred income tax adjustments resulting from state income tax law changes. These items had a net favorable impact on the Company's earnings for the nine months ended June 30, 2014 of approximately one cent per share.

5. NOTES PAYABLE AND LONG-TERM DEBT

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

June 30, 2014	Face Value	Fair Value Adjustment (1)	Net Carrying Value
Notes payable:			
Parent Revolving Facility	$150	$—	$150
Senior Notes:			
4.150% Senior Notes due 2014	500	5	505
5.600% Senior Notes due 2019	500	36	536
Subtotal – Long-term debt	1,000	41	1,041
Total notes payable and long-term debt	$1,150	$41	$1,191

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September 30, 2013	Face Value	Fair Value Adjustment (1)	Net Carrying Value
Senior Notes:			
4.150% Senior Notes due 2014	$500	$15	$515
5.600% Senior Notes due 2019	500	37	537
Total long-term debt	$1,000	$52	$1,052

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

Fair Value Hedging – The Company is exposed to changes in the fair value of its fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, on December 30, 2009, the Company entered into a fixed-for-variable interest rate swap on the 4.150% Senior Notes due December 1, 2014 (the "2014 Notes") for a notional amount of $500 million, with a maturity date matching the maturity date of the 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" and, collectively with the 2014 Notes, the "Senior 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) 1.245% for the swap on the 2014 Notes and (b) 2.3745% for the swap on the 2019 Notes. As of June 30, 2014, the weighted average effective interest rate on the Senior Notes was 2.04%.

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,	
	2014	2013	2014	2013
Gain (loss) on fair value of interest rate swaps	$1	$(26)	$(11)	$(42)
Gain (loss) on fair value of hedged fixed-rate debt	(1)	26	11	42
Net gain (loss) recorded in interest on borrowings	$—	$—	$—	$—

Cash Flow Hedging – The Company plans to refinance its 2014 Notes on or near their December 1, 2014 maturity date. On January 17, 2014, the Company entered into forward-starting interest rate swap contracts with an aggregate notional amount of $500 million to hedge against changes in the benchmark interest rate component of future interest payments resulting from the anticipated fixed-rate debt issuance. The Company has designated the contracts as a cash flow hedge of the future interest payments. The Company expects to settle the swap contracts in cash upon the earlier of the date of the debt issuance or December 1, 2014. If, upon settlement, the current 10-year LIBOR swap rate is greater than the fixed rate (3.341%) of the swap contracts, the Company would realize a gain and receive a payment from the contract counterparties. However, if, at the time of settlement, the current 10-year LIBOR swap rate is less than the fixed rate of the swap contracts, the Company would realize a loss and be required to make a payment to the contract counterparties.

Under cash flow hedge accounting, until settlement the swap contracts are carried at fair value and, to the extent they are an effective hedge, any unrealized gains or losses are recorded in other comprehensive income (loss). Any ineffective portion of the unrealized gains or losses is immediately recorded into earnings. The Company evaluates the effectiveness of forward-starting interest rate swap agreements on a quarterly basis. The Company did not record any ineffectiveness for the nine months ended June 30, 2014. Upon settlement, any realized gain or loss that has been recorded in other comprehensive income (loss) will be amortized into earnings over the term of the newly-issued fixed-rate debt. As of June 30, 2014, the Company expects to reclassify $1.4 million of pre-tax net unrealized losses, that are currently reported in accumulated other comprehensive loss, into earnings within the next 12 months.

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

	Amount of Loss Recognized in Other Comprehensive Income (Loss) (Effective Portion)			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Forward-starting interest rate swaps	$(15)	$—	$(24)	$—

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

	Balance Sheet Location	June 30, 2014	September 30, 2013
Interest rate contracts:			
Pay-variable interest rate swaps designated as fair value hedges	Other assets	$41	$52
Forward-starting interest rate swaps designated as cash flow hedges	Accounts payable and accrued liabilities	$(24)	$—

The interest rate swaps are subject to counterparty credit risk. Credit risk is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold, by entering into credit support agreements, or by utilizing approved central clearing counterparties registered with the Commodity Futures Trading Commission ("CFTC"). The interest rate swaps require daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps. As of June 30, 2014 and September 30, 2013, the pay-variable interest rate swap counterparties had pledged $44 million and $67 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. As of June 30, 2014, the Company had pledged $38 million of collateral to the forward-starting interest rate swap counterparties in the form of cash. An asset for collateral pledged to the swap counterparties in the form of cash is recorded in other assets on the Condensed Consolidated Balance Sheets.

TD Ameritrade Holding Corporation Credit Agreement — On June 11, 2014, the Parent entered into a credit agreement consisting of a senior unsecured revolving credit facility in the aggregate principal amount of $300 million (the “Parent Revolving Facility”). The Parent Revolving Facility replaced the Parent's prior $300 million unsecured revolving credit facility, which was scheduled to expire on June 28, 2014. The maturity date of the Parent Revolving Facility is June 11, 2019.

The applicable interest rate under the Parent Revolving Facility is calculated as a per annum rate equal to, at the option of the Parent, (a) LIBOR plus an interest rate margin (“Parent LIBOR loans”) or (b) (i) the highest of (x) the prime rate, (y) the federal funds effective rate plus 0.50% or (z) one-month LIBOR plus 1.00%, plus (ii) an interest rate margin (“Base Rate loans”). The interest rate margin ranges from 0.875% to 1.75% for Parent LIBOR loans and from 0% to 0.75% for Base Rate loans, determined by reference to the Company’s public debt ratings. The Parent is obligated to pay a commitment fee ranging from 0.10% to 0.25% on any unused amount of the Parent Revolving Facility, determined by reference to the Company's public debt ratings.

As of June 30, 2014, there was $150 million of borrowings outstanding under the Parent Revolving Facility, consisting of Parent LIBOR loans. As of June 30, 2014, the commitment fee was 0.15% and the interest rate margin was 1.25%, each determined by reference to the Company’s public debt ratings, and the interest rate was 1.40%, based on one-month LIBOR plus the interest rate margin.

The obligations under the Parent Revolving Facility are guaranteed by TD Ameritrade Online Holdings Corp. (“TDAOH”), a wholly-owned subsidiary of the Parent, and each “significant subsidiary” (as defined in SEC Rule 1-02(w) of Regulation S-X) of the Parent, other than broker-dealer subsidiaries, futures commission merchant subsidiaries and controlled foreign corporations. Currently, the only subsidiary guarantor of the obligations under the Parent Revolving Facility is TDAOH.

The Parent Revolving Facility contains negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of subsidiaries, mergers, consolidations, transactions with affiliates, change in nature of business and the sale of all or substantially all of the assets of the Company. The Parent is also required to maintain compliance with a maximum consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant, and the Company's broker-dealer subsidiaries are required to maintain compliance with a minimum regulatory net capital covenant. The Company was in compliance with all covenants under the Parent Revolving Facility as of June 30, 2014.

TD Ameritrade Clearing, Inc. Credit Agreement - On June 11, 2014, TD Ameritrade Clearing, Inc. (“TDAC”), the Company’s clearing broker-dealer subsidiary, entered into a credit agreement consisting of a senior unsecured revolving credit facility in the aggregate principal amount of $300 million (the “TDAC Revolving Facility”). The TDAC Revolving Facility replaced TDAC’s prior $300 million unsecured revolving credit facility, which was scheduled to expire on June 28, 2014. The maturity date of the TDAC Revolving Facility is June 11, 2019. The applicable interest rate under the TDAC Revolving Facility is calculated as a per annum rate equal to, at the option of TDAC, (a) LIBOR plus an interest rate margin (“TDAC LIBOR loans”) or (b) the federal funds effective rate plus an interest rate margin (“Fed Funds Rate loans”). The interest rate margin ranges from 0.75% to 1.50% for both TDAC LIBOR loans and Fed Funds Rate loans, determined by reference to the Company’s public debt ratings. TDAC is obligated to pay a commitment fee ranging from 0.08% to 0.20% on any unused amount of the TDAC Revolving Facility, determined by reference to the Company’s public debt ratings. As of June 30, 2014, the interest rate margin would have been 1.00% for both TDAC LIBOR loans and Fed Funds Rate loans, and the commitment fee was 0.125%, each determined by reference to the Company’s public debt ratings. There were no borrowings outstanding under the TDAC Revolving Facility as of June 30, 2014.

The TDAC Revolving Facility contains negative covenants that limit or restrict, subject to certain exceptions, the incurrence of liens, indebtedness of TDAC, mergers, consolidations, change in nature of business and the sale of all or substantially all of the assets of TDAC. TDAC is also required to maintain minimum tangible net worth and is required to maintain compliance with minimum regulatory net capital requirements. TDAC was in compliance with all covenants under the TDAC Revolving Facility as of June 30, 2014.

6. CAPITAL REQUIREMENTS

The Company’s broker-dealer subsidiaries are subject to the SEC Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934, or the “Exchange Act”), administered by the SEC and the Financial Industry Regulatory Authority (“FINRA”), which requires the maintenance of minimum net capital, as defined. Net capital and the related net capital requirement may fluctuate on a daily basis.

TD Ameritrade Clearing, Inc., the Company’s clearing broker-dealer subsidiary, and TD Ameritrade, Inc., the Company’s introducing broker-dealer subsidiary, compute net capital under the alternative method as permitted by Rule 15c3-1. TDAC is required to maintain minimum net capital of the greater of $1.5 million, which is based on the type of business conducted by the broker-dealer, or 2% of aggregate debit balances arising from client transactions. Under Rule 15c3-1, TD Ameritrade, Inc. is required to maintain minimum net capital of the greater of $250,000 or 2% of aggregate debit balances. As a futures commission merchant registered with the CFTC, TD Ameritrade, Inc. is also subject to CFTC Regulation 1.17 under the Commodity Exchange Act, administered by the CFTC and the National Futures Association, which requires the maintenance of minimum net capital of the greatest of (a) $1.0 million, (b) its futures risk-based capital requirement, equal to 8% of the total risk margin requirement for all futures positions carried by the futures commission merchant in client and nonclient accounts, or (c) its Rule 15c3-1 net capital requirement. Under the alternative method, a broker-dealer may not repay any subordinated borrowings, pay cash dividends or make any unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of (a) less than 5% of aggregate debit balances, (b) less than 110% of its risk-based capital requirement under CFTC Regulation 1.17, or (c) less than 120% of its minimum dollar requirement. These net capital thresholds, which are specified in Exchange Act Rule 17a-11 and CFTC Regulation 1.12, are typically referred to as “early warning” net capital thresholds.

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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, 2014	$1,560	$271	$1,289	$883	11.52 %
September 30, 2013	$1,302	$222	$1,080	$746	11.70 %

TD Ameritrade, Inc.

Date	Net Capital	Required Net Capital (8% of Total Risk Margin)	Net Capital in Excess of Required Net Capital	Net Capital in Excess of Early Warning Threshold (110% of Required Net Capital)
June 30, 2014	$284	$17	$267	$265
September 30, 2013	$305	$10	$295	$294

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 $26 million and $23 million as of June 30, 2014 and September 30, 2013, respectively, which exceeded the required Tier 1 capital by $11 million and $8 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.

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.

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

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

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

The Company estimates that the aggregate range of reasonably possible losses in excess of amounts accrued is from $0 to $35 million as of June 30, 2014. This estimated aggregate range of reasonably possible losses is based upon currently available information for those legal and regulatory matters in which the Company is involved, taking into account the Company's best estimate of reasonably possible losses for those cases as to which an estimate can be made. For certain cases, the Company does not believe an estimate can currently be made, as some cases are in preliminary stages and some cases have no specific amounts claimed. The Company's estimate involves significant judgment, given the varying stages of the proceedings and the inherent uncertainty of predicting outcomes. The estimated range will change from time to time as the underlying matters, stages of proceedings and available information change. Actual losses may vary significantly from the current estimated range.

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

Income Taxes

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

General Contingencies

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

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

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a rapidly depreciating value and may not be sufficient to cover their obligations in the event of liquidation. The Company seeks to mitigate the risks associated with its client margin and leverage activities by requiring clients to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels throughout each trading day and, pursuant to such guidelines, requires clients to deposit additional collateral, or to reduce positions, when necessary.

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

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

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

The following table summarizes the fair values of client margin securities and stock borrowings that were available to the Company to utilize as collateral on various borrowings or for other purposes, and the amount of that collateral loaned or repledged by the Company (dollars in billions):

	June 30, 2014	September 30, 2013
Client margin securities	$15.6	$12.5
Stock borrowings	1.1	1.2
Total collateral available	$16.7	$13.7
Collateral loaned	$2.5	$1.9
Collateral repledged	2.0	1.8
Total collateral loaned or repledged	$4.5	$3.7

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

Assets	Balance Sheet Classification	June 30, 2014	September 30, 2013
Cash	Receivable from brokers, dealers and clearing organizations	$171	$115
U.S. government debt securities	Securities owned, at fair value	166	61
Total		$337	$176

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.

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

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

8. FAIR VALUE DISCLOSURES

Fair Value Measurement — Definition and Hierarchy

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

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

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

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

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The following tables present the Company’s fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2014 and September 30, 2013 (dollars in millions):

	As of June 30, 2014			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	$1,132	$—	$—	$1,132
Investments segregated for regulatory purposes:				
U.S. government debt securities	—	2,976	—	2,976
Securities owned:				