

Glossary of Terms

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

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

Average client trades per day — *Total trades* divided by the number of *trading days* in the period. This metric is also known as *daily average revenue trades* ("DARTs").

Average commissions per trade — Total commissions and transaction fee revenues as reported on our consolidated financial statements, less *order routing revenue*, divided by *total trades* for the period. *Commissions and transaction fee* revenues primarily consist of trading commissions, *order routing revenue* and markups on riskless principal transactions in fixed-income securities.

Basis point — When referring to interest rates, one basis point represents one one-hundredth of one percent.

Bank deposit account fees — Revenues generated from a sweep program that is offered to eligible clients of the Company whereby clients' uninvested cash is swept to FDIC-insured (up to specified limits) money market deposit accounts at third-party financial institutions participating in the program.

Beneficiary accounts — *Brokerage accounts* managed by a custodian, guardian, conservator or trustee on behalf of one or more beneficiaries. Examples include accounts maintained under the Uniform Gift to Minors Act (UGMA) or Uniform Transfer to Minors Act (UTMA), guardianship, conservatorship and trust arrangements and pension or profit plan for small business accounts.

Brokerage accounts — Accounts maintained by us on behalf of clients for securities brokerage activities. The primary types of brokerage accounts are *cash accounts*, *margin accounts*, *IRA accounts* and *beneficiary accounts*. *Futures accounts* are sub-accounts associated with a brokerage account for clients who want to trade futures and/or options on futures. *Forex accounts* are sub-accounts associated with a brokerage account for clients who want to engage in foreign exchange trading.

Cash accounts — *Brokerage accounts* that do not have *margin account* approval.

Client assets — The total value of cash and securities in *brokerage accounts*.

Client cash and money market assets — The sum of all client cash balances, including *client credit balances* and client cash balances swept into *bank deposit accounts* or money market mutual funds.

Client credit balances — Client cash held in *brokerage accounts*, excluding balances generated by client short sales on which no interest is paid. Interest paid on client credit balances is a reduction of *net interest revenue*. Client credit balances are included in "payable to clients" on our consolidated financial statements.

Client margin balances — The total amount of cash loaned to clients in *margin accounts*. Such loans are secured by client assets. Interest earned on client margin balances is a component of *net interest revenue*. Client margin balances are included in "receivable from clients, net" on our consolidated financial statements.

Commissions and transaction fees — Revenues earned on trading commissions, *order routing revenue* and markups on riskless principal transactions in fixed-income securities. Revenues earned on trading commissions includes client trades in common and preferred stock, ETFs, exchange traded notes, closed-end funds, options, futures, foreign exchange, mutual funds and fixed income securities.

Consolidated duration — The weighted average remaining years until maturity of our *spread-based assets*. For purposes of this calculation, floating rate balances are treated as having a one-month duration. Consolidated duration is used in analyzing our aggregate interest rate sensitivity.

Daily average revenue trades ("DARTs") — *Total trades* divided by the number of *trading days* in the period. This metric is also known as *average client trades per day*.

EBITDA — EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-GAAP financial measure. We consider EBITDA to be an important measure of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA is used as the denominator in the consolidated leverage ratio calculation for covenant purposes under our senior revolving credit facility. EBITDA eliminates the non-

cash effect of tangible asset depreciation and amortization and intangible asset amortization. EBITDA should be considered in addition to, rather than as a substitute for, GAAP pre-tax income, net income and cash flows from operating activities.

Fee-based investment balances — Client assets invested in money market mutual funds, other mutual funds and our programs such as AdvisorDirect,[®] Essential Portfolios, Selective Portfolios and Personalized Portfolios on which we earn fee revenues. Fee revenues earned on these balances are included in *investment product fees* on our consolidated financial statements.

Forex accounts — Sub-accounts maintained by us on behalf of clients for foreign exchange trading. Each forex account must be associated with a *brokerage account*. Forex accounts are not counted separately for purposes of our client account metrics.

Funded accounts — All open client accounts with a total *liquidation value* greater than zero.

Futures accounts — Sub-accounts maintained by us on behalf of clients for trading in futures and/or options on futures. Each futures account must be associated with a *brokerage account*. Futures accounts are not counted separately for purposes of our client account metrics.

Insured Deposit Account — We are party to an Insured Deposit Account ("IDA") agreement with TD Bank USA, N.A. ("TD Bank USA"), TD Bank, N.A. and The Toronto-Dominion Bank ("TD"). Under the IDA agreement, TD Bank USA and TD Bank, N.A. (together, the "TD Depository Institutions") make available to our clients FDIC-insured (up to specified limits) money market deposit accounts as either designated sweep vehicles or as non-sweep deposit accounts. We provide marketing, recordkeeping and support services for the TD Depository Institutions with respect to the money market deposit accounts. In exchange for providing these services, the TD Depository Institutions pay us an aggregate marketing fee based on the weighted average yield earned on the client IDA assets, less the actual interest paid to clients, a servicing fee to the TD Depository Institutions and the cost of FDIC insurance premiums. Fee revenues earned under this agreement are included in *bank deposit account fees* on our consolidated financial statements.

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

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

Investment product fees — Revenues earned on *fee-based investment balances*. Investment product fees consists of fees earned on client assets invested in money market mutual funds, other mutual funds and through investment programs such as AdvisorDirect,[®] Essential Portfolios, Selective Portfolios and Personalized Portfolios. Investment product fees also includes fees earned on client assets managed by independent registered investment advisors utilizing our trading and investing platforms.

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

Liquid assets — Liquid assets is a non-GAAP financial measure that we consider to be an important measure of our liquidity. Liquid assets may be utilized for general corporate purposes and is defined as the sum of (a) corporate cash and cash equivalents, (b) corporate investments, less securities sold under agreements to repurchase, and (c) our regulated subsidiaries' net capital in excess of minimum operational targets established by management. Corporate cash and cash equivalents includes cash and cash equivalents from our investment advisory subsidiaries. Liquid assets represents available capital, including any capital from our regulated subsidiaries in excess of established management operational targets. We include the excess capital of our regulated subsidiaries in the calculation of liquid assets, rather than simply including regulated subsidiaries' cash and cash equivalents, because capital requirements may limit the amount of cash available for dividend from the regulated subsidiaries to the parent company. Excess capital, as defined under clause (c) above, is generally available for dividend from the regulated subsidiaries to the parent company. Liquid assets is based on more conservative measures of net capital than regulatory requirements because we generally manage to higher levels of net capital at our regulated subsidiaries than the regulatory thresholds require. Liquid assets should be considered as a supplemental measure of liquidity, rather than as a substitute for GAAP cash and cash equivalents.

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

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

Market fee-based investment balances — Client assets invested in mutual funds (except money market funds) and investment programs such as AdvisorDirect,[®] Essential Portfolios, Selective Portfolios and Personalized Portfolios on which we earn fee revenues that are largely based on a percentage of the market value of the investment. Market fee-based investment balances are a

component of *fee-based investment balances*. Fee revenues earned on these balances are included in *investment product fees* on our consolidated financial statements.

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

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

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

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

Non-GAAP Net Income and Non-GAAP Diluted EPS — Non-GAAP net income and non-GAAP diluted earnings per share ("EPS") are non-GAAP financial measures. We define non-GAAP net income as net income adjusted to remove the after-tax effect of amortization of acquired intangible assets and acquisition-related expenses. We consider non-GAAP net income and non-GAAP diluted EPS as important measures of our financial performance because they exclude certain items that may not be indicative of our core operating results and business outlook and may be useful in evaluating the operating performance of the business and facilitating a meaningful comparison of our results in the current period to those in prior and future periods. Amortization of acquired intangible assets is excluded because management does not believe it is indicative of our underlying business performance. Acquisition-related expenses are excluded as these costs are not representative of the costs of running our on-going business. Non-GAAP net income and non-GAAP diluted EPS should be considered in addition to, rather than as a substitute for, GAAP net income and diluted EPS.

Order routing revenue — Revenues generated from payments or rebates received from market centers. Order routing revenue is a component of *transaction-based revenues*.

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

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

Securities sold under agreements to repurchase (repurchase agreements) — We sell securities to counterparties with an agreement to repurchase the same or substantially the same securities at a stated price plus interest on a specified date. We utilize repurchase agreements to finance our short-term liquidity and capital needs. Under these financing transactions, we receive cash from counterparties and provide U.S. Treasury securities as collateral.

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

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

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

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

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