BLUE CALYPSO, INC.
Form 10-K
March 22, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2015

o 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 333-143570

BLUE CALYPSO, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-8610073
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 W. Renner Rd., Suite 200 Richardson, TX	75082
(Address of principal executive offices)	(Zip Code)

(800) 378-2297
(Registrant’s telephone number, including area code)

Securities Registered pursuant to Section 12(b) of the Act: None

Securities Registered pursuant to Section 12(g) of the Exchange Act: Common Stock, $0.0001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨. No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x.

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

On June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value (based on the closing sales price on that date) of the voting stock held by non-affiliates of the registrant was $17,418,543. Shares of common stock held by each current executive officer and director and by each person who is known by the registrant to own 5% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not a conclusive determination for other purposes.

The number of outstanding shares of the registrant's common stock as of March 17, 2016, was 6,007,443.

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PART I

ITEM 1. BUSINESS

OUR COMPANY

Blue Calypso, Inc. (the “Company,” “Blue Calypso,” “we,” or “us”) develops and delivers mobile shopper marketing and analytics solutions for the business-to-consumer (B2C) marketplace leveraging mobile, social media, gamification and our intellectual property portfolio. We have developed a patented technology platform that enables brands and retailers to engage with shoppers when they are on the path-to-purchase products and services. Our technology also allows brands to leverage customer relationships to increase brand loyalty and drive revenue through sharing and influencer marketing. We generate revenue from the mobile and cloud-based consumption of our technology platform, consulting/services fees, and licensing and/or enforcement of our patented technologies. Our intellectual property portfolio consists of five US patents (an appeal at the Federal Circuit as a result of the PTAB ruling in December 2014 is in progress, which may affect the validity of one of the patents) and eleven pending patent applications that generally cover methods and systems for communicating and syndicating electronic offers and advertisements. One of the applications has recently been allowed by the patent office and we expect it to issue as a patent in the near future. Once granted the number of patents held by the Company will increase to six. All of the patents and patent applications that cover the core of our business, i.e., a “System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices”, have been developed internally by our Founder and Chief Executive Officer, Andrew Levi, and our Director of Innovation, Bradley Bauer, and assigned to our wholly owned subsidiary, Blue Calypso, LLC. In September 2013, we acquired proprietary mobile gamification technology and subsequently applied for two additional patents based upon the enhancement and integration of this technology into our platform.

Our proprietary technology platform enables retailers to harness the power and adoption that today’s mobile devices bring to the consumer shopping experience. We connect brands with store visitors when they are on the path-to-purchase and enable those customers to engage with, and redeem brand content as well as leverage their brand affinity across the most popular social media channels. Our platform tracks performance, monitors engagement, manages attribution and delivers robust, real-time analytics that provide acute insight regarding the adoption, performance and return on investment of our client’s promotions and location-based content. Our technology is designed to help clients target their marketing messages, attract new customers, increase awareness and drive product sales. For example, campaigns facilitated through our platform can encourage consumers to learn more about products, watch promotional videos about particular products, see product reviews and comparative pricing or click to buy products. All delivered through a highly engaging mobile “kiosk” or “digital concierge” type experience.

Over the last five years, the world has seen mobile, social media, and digital advertising evolve dramatically and actually converge. Through this technological evolution, a sociological shift has occurred in how influential digital media can be when deployed strategically with hyper-targeted content.

Today retailers are aggressively exploring mobile shopper engagement as the next frontier of the shopping experience. In an article issued by Reuters on December 2, 2014 titled, Majority of Mobile Shoppers Turn To Their Devices Over Store Employees And In-Store Info, according to CEA Survey”, more than half (58 percent) of shoppers who use mobile devices, such as smartphones and tablets, indicate they prefer to look up information on their devices while shopping, rather than talk to store employees – especially among men and shoppers aged 25-44. However we believe that retailers have yet to find a comfortable way of co-existing in this ecosystem of traditional consumer engagement.

Through mobile and social media, consumers and brands have their own unique and significant digital audience. According to Statista, the average Facebook user has 350 Friends. As reported in an article published by The Telegraph, the average Twitter user is an American woman with an iPhone and 208 followers. The claims in the

article are based on data culled from a sample of 36 million Twitter profiles by Beevolve, a social media marketing firm. We believe that on average an individual has 25 unique frequent contacts they communicate with weekly via text messages or mobile calls. We also believe that active participation in LinkedIn, Google+, Tumblr and/or a personal blog can further extend one's direct social reach significantly. With our platform, brand content is not bound by any single app, social media community, website, carrier or device. As a result, brand influencers have the capability to immediately reach hundreds or even thousands of people through their direct personal and digital social relationships.

As a by-product of campaign delivery and recipient interaction, we deliver real-time analytics and business intelligence capabilities, which provide brands the ability to see how campaigns are deployed, where they are getting the most traction, and which are seeing the most activity. The platform also allows brands to assess the conversational response and sentiment to their messages which enables them to adjust their campaigns based on performance.

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OUR PRODUCTS AND SERVICES

Our core platform called KIOSENTRIX® is the basis for our business model. Additionally, we offer outsourced consulting and customized software development services through our Blue Calypso Labs (“BC Labs”) services.

KIOSENTRIX® provides manufacturers and brick-and-mortar retailers with a highly targeted and personalized way of engaging with store visitors when they are on the path-to-purchase. There are several methods of activation with store visitors including but not limited to short-code messaging, iBeacons, Near Field Communications (NFC), Quick Response (QR) codes, wifi and Geo-fencing. Once invited through store messaging and activated, a store visitor is guided by store-centric content through their shopping experience which is unique for each retailer. All interactions with the store shopper are tracked in order to deliver targeted content which is both circumstantially and geographically relevant and ultimately drives more store visits and increases the purchase size while creating a higher degree of customer affinity and satisfaction.

Blue Calypso Labs™, or BC Labs, was launched in October 2013 to offer software development, innovation and related consulting services to clients. BC Lab’s mission is to help clients develop unique software solutions that solve strategic business problems, focus on integrating our digital marketing and analytics technologies into various client applications as well as seek licensing revenue from our broad portfolio of intellectual property.

We intend to continue to develop new technology and expand on our intellectual property portfolio and product offerings to meet the needs of companies seeking to amplify their brand messages through social media networks.

Our principal executive offices are located at 101 W. Renner Rd. Suite 200, Richardson, Texas 75082. Our telephone number is (800) 378-2297. Our website address is http://www.bluecalypso.com.

MARKET OPPORTUNITY

We believe that the market opportunities for our existing products and technology are significant and continuing to expand. According to the figure below, Forrester Research estimates that in 2015, approximately $67 billion will be spent in the United States on interactive marketing. Forrester estimates this amount will increase to approximately $103 billion by 2019. We believe social media marketing is experiencing rapid growth because consumers are much more receptive to recommendations from their friends and family. The below chart demonstrates these trends.

Source: Forrester Research, Inc.

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We believe that as advertisers adapt to the changing media and content distribution landscape, they will place an increasing priority on the next frontier of mobile while leveraging social media communities and properties.

We believe that historical advertising media such as print, television and radios, and even Internet banner ads, are beginning to shift to mobile platforms and generally explore alternatives to traditional advertising techniques. Mobile platforms enable advertisers to put relevant messages out to a more highly targeted buyer community, while encouraging branded and personal content syndication. In addition, mobile devices have become a ubiquitous extension of many target buyers and a critical part of the lifestyle of most generations.

We believe that one of the most attractive characteristics of mobile consumers for advertisers is the opportunity for more accurate content targeting. Typical parameters include carrier, device type and mobile channel, with the possibility to add geo-location, behavioral, demographic and interest-based information (the latter two generally require user opt in) infused with a user's actual purchase history. For instance, mobile technology can enable relevant promotional offers and coupons to be delivered to shoppers' phones while they are in the store. That level of personalization will likely affect purchase behavior. According to the Telemetrics/xAd report, coupons and relevant targeting also motivate consumers to take further action.

Mobile marketing has the ability to connect brands with consumers on an intimate one-to-one basis, providing relevant information that is important to them when it interests them the most. While the sector is still in its infancy, we believe that brands, retailers, advertising executives, content publishers and technology enablers have high expectations regarding the potential of the mobile advertising market. We believe that our platform offers an effective tool for advertisers seeking to enter or expand their advertising presence in the mobile market, target specific customers with selected messages, and capitalize on the power of peer recommendations. In fact, according to an article published by eMarketer on January 5, 2015 titled, In-Store Mobile Use Redefines Customer Service, a Deloitte study found that mobile devices used before or during in-store shopping trips converted or helped to convert nearly $600 billion in US in-store retail sales in 2013 or 19% of total brick-and-mortar sales.

We also believe that peer-to-peer or "friend-to-friend" advertising (also known as influencer marketing) is the most powerful and effective form of communicating with consumers. According to eMarketer's October 24, 2014 report titled, Millennials' Social Shares Don't Stop with the Post, two thirds of 18-34-year-olds were at least somewhat likely to make a purchase based on content shared by one of their peers on social. According to Nielsen as published in the Simply Measured report titled, Influencer Marketing: Stats and Quotes You Need to Know, 90% of consumers trust peer recommendations but only 33% trust ads. We believe that this ability to share retail offers and product information in real-time with friends and family, makes mobile content delivery even more valuable. Our products enable our customers to combine great mobile-targeted content with word-of-mouth recommendations.

COMPETITIVE STRENGTHS

Mobile shopper engagement, digital market awareness and branding through mobile and digital media is an extremely competitive and fragmented industry. Adequate protection of intellectual property, successful product development, adequate funding and retention of experienced personnel are critical to our success. We believe that we have the following strengths:

- Prominent Intellectual Property Position. We believe that our patents provide us with broad and comprehensive coverage for the electronic delivery of brand content and electronic offers on any electronic communication device. Our policy is to seek to protect our proprietary position by filing patent applications related to our proprietary technology and improvements that we believe are important to the development of our business. We also pursue companies that we believe are infringing on our intellectual property in order to protect our intellectual property assets and our

competitive position.

- Extensive Knowledge and Experience in Product Advertising, Awareness and Branding. We believe that our management and personnel have extensive knowledge and experience in product advertising, digital marketing and awareness and branding which significantly adds to our competitive position.

- Highly Scalable Platform. We have the ability to rapidly customize products to meet our client's diverse needs. Our technology platform has evolved and matured as we have refined our go-to-market strategy and target market.

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OUR STRATEGY

We intend to continue innovating and will attempt to maximize the economic benefits of our intellectual property. We currently have two key areas of operation:

Development and Delivery of Mobile Shopper Engagement Solutions- We have developed a proprietary platform that enables brands to engage with shoppers when they are on the path-to-purchase in order to deliver a unique shopper experience, increase brand loyalty and drive revenue.

We believe that our strong intellectual property and our extensive experience in mobile technologies, affinity/advocacy, awareness and branding will enable us to continue to develop new products and services. We will execute on this strategy through a combination of: organic customer acquisition; indirect customer acquisition through strategic partners such as IntegraColor; and through synergistic acquisitions.

Our direct to market approach includes aggressive market awareness through public relations, and digital and traditional marketing awareness such as mailings, calls, email campaigns, social media, trade show attendance, and industry association participation. Partnering with organizations that are part of the marketing supply chain who focus on our target market (multi-location brick-and-mortar retailers) gives us immediate access to and credibility with a portfolio of existing customers. Furthermore, by aligning with the right partners, our solutions become part of a larger program which drives revenue for our customers. These programs include our customer’s branding, demand generation, marketing programs/campaigns, deals/offers/coupons, customer affinity programming and other initiatives already in existence with their brands. Finally, we expect to identify and pursue strategic acquisitions that help us grow our feature set, customer base, services capabilities, and our intellectual property portfolio.

Maximization of the Economic Benefits of Our Intellectual Property– The Company was founded based on the opportunities created when the vision and opportunity for mobile adoption caused our founders to file our first patent in 2004. Since then we have expanded our portfolio and will continue to innovate and file for additional patent protection of our inventions. This IP portfolio is a very valuable asset and we have a duty to the Company and to the shareholders to protect these assets. Therefore we intend to continue to identify and pursue those in the marketplace that are infringing our IP.

In summary, we have developed a proprietary platform that enables brands to engage with shoppers when they are on the path-to-purchase in order to deliver a unique shopper experience, increase brand loyalty and drive revenue. We believe that our strong intellectual property and our extensive experience in mobile technologies, awareness and branding will enable us to continue to develop new products and services.

We intend to expand our intellectual property portfolio through both internal development and acquisition. Our goal is to monetize our intellectual property through licensing and strategic partnerships.

Marketing

We target multi-location brick-and-mortar retailers as well as product manufacturers through partnerships and indirect sales channels as well as brand-direct. We have a multi-touch marketing and branding strategy as well as exhibit at trade shows and market directly utilizing current digital techniques such as social media and pay-per-click advertising.

Customers

We enter into written agreements with each of our customers, which vary in term. Customers’ fees are based on the complexity of the solution we deliver for them and generally include a setup fee, monthly service fee and sometimes

a performance fee. Further, our test programs tend to be much smaller as we seek to prove the concept with a particular customer before rolling out a full national campaign. We have also entered into license agreements pursuant to which we derive revenue for the use of our intellectual property on a perpetual license basis. Through BC Labs we provide consulting and software development services.

Technology to Capture Data

Our platform allows the collection of business intelligence and analytics resulting from data accumulated as content is deployed, adopted, consumed and shared. Our technology allows the brand/advertiser to monitor the full cycle of a campaign, from the first engagement to the final redemption or intent to purchase. With this data, we show each client the return on investment (ROI) of each dollar spent using our unique platform. This allows us to prove the effectiveness of the engagement in near real time and enables clients to quickly improve their campaign effectiveness.

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Intellectual Property

We believe we have advantages over competitors in the mobile advertising industry due to the intellectual property we possess and have on file with the United States Patent and Trademark Office. In February 2010, we received United States Patent number 7,664,516.

Subsequently we have received continuation-in-part (CIP) patents 8,155,679, 8,438,055, 8,452,646 and 8,457,670. With the payment of all maintenance fees, ‘516, ‘679, ‘055 and ‘646 patents will not expire until December 14, 2026.

We believe that the patents cover the core of our business, i.e., a basic method and system for peer-to-peer advertising between mobile communications devices. We also have four (4) additional CIP patent applications pending which build on the functionality of our issued patents, one patent application which covers a digital game of tag played on mobile devices through which participants can earn points and incentives from game sponsors, and one patent application that covers cumulative incentives.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00034, CBM2013-00046 and CBM2013-00044. In each case, certain claims of each patent were held to be invalid for various reasons. With respect to the ‘516, ‘679, ‘055 and ‘646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the ‘670 patent were held invalid. The Company appealed each of the final decisions to the United States Federal Circuit Court of Appeals. The Company appealed the unpatentability determinations including the decision of invalidity based on anticipation of several claims of the patents by prior art (the Paul reference). The Company also appealed the decision to review its patents under the provisions for CBMR and that the ‘516 patent lacked sufficient written description under § 112 to support the claims. Groupon appealed the Board’s decision that the patents were not valid under § 103 and the determination by the PTAB that the Ratismor reference was not publically available prior art.

On March 1, 2016, the Federal Circuit overturned the PTAB decision as to insufficient written description but upheld the decision that the Ratismore reference was not publically available prior art. However, the Federal Circuit confirmed the Board’s decision to institute the CBMR process on the basis that Blue Calypso’s patent portfolio qualified as a business method patent which was financial in nature. The Federal Circuit also upheld the decision of invalidity based on anticipation of several claims of the patents by the prior art Paul reference.

The Company has an option to pursue an en banc review of the holding with respect to anticipation by the Paul reference. An en banc review would occur before a panel of eight judges of the Federal Circuit as compared to the recently completed appeals process which utilized three. We also have the option of requesting that the Supreme Court review the Federal Circuit’s decision. These options for appeal must be filed within 30 and 90 days respectively from the date of the March 1, 2016 decision.

The reversal of the written description matter is significant as it re-establishes the ‘516 parent patent issue date of February 2010 as the date that damages begin to accrue. Prior to this reversal, the first date of infringement was relegated to the later issue date of the ‘679 patent on April 2012.

The court dockets for each case, including the parties’ briefs are publicly available on the Public Access to Court Electronic Records website, or PACER, www.pacer.gov, which is operated by the Administrative Office of the U.S. Courts.

Below is a brief overview of our issued patents:

U.S. Patent No. 7,644,516

The ‘516 Patent discloses a method and system for communicating advertisements between mobile communication devices. An advertising campaign and a set of incentives are arranged between an advertiser and an intermediary, such as Blue Calypso. A subscriber is identified for the advertiser based on a profile of a subscriber. A subscriber, once qualified for the advertising campaign, is presented with an opportunity to participate. In operation, when a communication transmission is received from the participant, the advertisement is associated with the communication transmission and sent to a destination.

U.S. Patents 8,155,679 and 8,457,670 are continuations of the ‘516 Patent and include claims which disclose similar subject matter.

U.S. Patent No. 8,438,055

The ‘055 Patent discloses a system and method for distribution of advertisements between communication devices. The system and method provides for accounting and distribution of incentives related to distribution of the advertisements. The system further provides for association of testimonials from advertising recipients related to the advertisement and for distribution of the testimonials to communication devices. A bi-lateral selection between subscribers and advertisers using the system is created whereby both advertisers and subscribers agree to participate in the distribution of advertisements and testimonials.

U.S. Patent No. 8,452,646

The ‘646 Patent discloses a system and method for distribution of advertisements and electronic offers between communication devices. The system and method provides for accounting and distribution of incentives related to distribution of the advertisements and offers. A bi-lateral selection between subscribers and advertisers using the system is created whereby both advertisers and subscribers agree to participate in the distribution of advertisements and offers. The system further provides for a means of redeeming offers utilizing points of sale and analytics associated to the redemption of electronic offers.

We believe that all of the technology that delivers our platform to both advertisers and endorsers has been developed and is fully owned by us with the exception of several web controls that are licensed by us pursuant to a royalty-free license with unlimited distribution rights. The architecture of the platform was designed to support millions of participants through server and application clustering and load-balancing. We believe the elegance of the data flow makes for an extremely light-weight and highly scalable system that can easily be enhanced. By using a standards-based SMS protocol coupled with tight integration to social communities such as Facebook, Twitter, LinkedIn and blogs as the primary delivery mechanisms, and by serving the dynamic content via a standard mobile web browser, we are capable of supporting most any receiving mobile device with Internet access. Platform smartphone support is available for Apple iPhone and Google Android devices as well as through a standard desktop web browser.

We own twelve registered trademarks in the United States: “BLUE CALYPSO®,” “WHEN FRIENDS TALK, FRIENDS LISTEN®,” “CALYP®,” “POWER TO THE PEOPLE®,” “SOCIALLY YOURS®,” “ENDORSE SHARE EARN®,” “EMGAGE®,” “DASHTAGG®” (two registrations for different classes), “POPSHARE®,” “SHARE ADVERTISING®,” and “KIOSENTRIX®,” In addition, we have four pending trademark applications for the following: “SOCIALECHO™,” “MOBILE ADVANTAGE™,” “OFTIN™,” and “POPTRAX™.”

We also believe that we have common law rights in these trademarks that arise from use of the marks in commerce. The trademark registrations will continue in force as long as all renewals are timely paid and use of the marks continues. Our common law trademark rights will continue as long as the marks are used in commerce.

Employees

As of December 31, 2015, we had a total of 17 full-time employees. We also utilize the services of independent contractors. We have no labor union contracts and believe relations with our employees are satisfactory.

Competition

We face formidable competition in every aspect of our business, particularly from other companies that seek to deliver a mobile targeted brand-driven experience for consumers. First and foremost, we consider ourselves a next generation mobile shopping experience including customer engagement, customer presentation, social sharing, brand loyalty and rewards so we believe our primary competitors are companies that embrace true brand loyalty, not just providers of discounted transactions. We believe that our space is large and has no first movers or any company with a notable share of the market. We believe that our approach to the market, value proposition to large retail brands, combined with our strong intellectual property are clear differentiators in a nascent yet quickly evolving industry for mobile shopper marketing.

We also face competition from other mobile and Internet advertising providers, including companies that are not yet known to us. We may compete with companies that sell products and services online, because these companies, like us, are trying to attract users to their websites to search for information about products and services. Our biggest

competitor is each of the retail brands for which we are in pursuit as many of them have or are building their own mobile apps. The problem we predict most of them will face at some point is the fact that consumers do not want a mobile app on their phone for every retailer they shop at. Therefore, with few exceptions, the adoption has been and will continue to be poor. Thus, we expect that retailers will abandon this expensive route for mobile engagement and transition to what we believe is a much more effective route to success by partnering with Blue Calypso.

We believe that we compete favorably on the factors described above. However, product advertising, marketing, awareness and branding through social media sites is an extremely competitive space. As we expand our product offerings to include private branded products, instant access products, as well as other technology offerings, we will continue to face new competitors. Further, as the technology marketplace is always expanding, new competitors continuously innovate, and can become a competitor in the future.

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Government Regulation

Aspects of the digital marketing and advertising industry and how our business operates are highly regulated. We are subject to a number of domestic and, to the extent our operations are conducted outside the U.S., foreign laws and regulations that affect companies conducting business on the Internet and through other electronic means, many of which are still evolving and could be interpreted in ways that could harm our business. In particular, we are subject to rules of the Federal Trade Commission ("FTC"), the Federal Communications Commission ("FCC") and potentially other federal agencies and state laws related to our advertising content and methods, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, which became effective on January 1, 2004, establishes certain requirements for commercial electronic mail messages and specifies penalties for the transmission of commercial electronic mail messages that follow a recipient's opt-out request or are intended to deceive the recipient as to source or content, federal and state regulations covering the treatment of member data that we collect from endorsers.

U.S. and foreign regulations and laws potentially affecting our business are evolving frequently. We are, and will continue to update and improve our regulatory compliance features and functionality, and we will need to continue to identify and determine how to effectively comply with all the regulations to which we are subject now or in the future. If we are unable to identify all regulations to which our business is subject and implement effective means of compliance, we could be subject to enforcement actions, lawsuits and penalties, including but not limited to fines and other monetary liability or injunction that could prevent us from operating our business or certain aspects of our business. In addition, compliance with the regulations to which we are subject now or in the future may require changes to our products or services, restrictor impose additional costs upon the conduct of our business or cause users to abandon material aspects of our services. Any such action could have a material adverse effect on our business, results of operations and financial condition.

The FTC adopted Guides Concerning the Use of Endorsements and Testimonials in Advertising ("Guides") on October 5, 2009. The Guides recommend that advertisers and publishers clearly disclose in third-party endorsements made online, such as in social media, if compensation was received in exchange for said endorsements. Because our business connects endorsers and advertisers, relies on endorsers sharing their brand endorsements within their digital social circles, and both we and endorsers may earn cash and other incentives, any failure on our part to comply with the Guides may be damaging to our business. We are currently taking several steps to ensure that our endorsers indicate in social media posts that compensation is being provided to the endorsers, including by listing the phrase "paid" or "ad" or other appropriate language in advertisements that our endorsers circulate on social media. We also advise endorsers of the need to comply with the Guides, and we can terminate accounts with endorsers for noncompliance. Nonetheless, the FTC could potentially identify a violation of the Guides, which could subject us to a financial penalty or loss of endorsers or advertisers.

In the area of information security and data protection, many states have passed laws requiring notification to users when there is a security breach for personal data, such as the 2002 amendment to California's Information Practices Act, or requiring the adoption of minimum information security standards that are often vaguely defined and difficult to practically implement. The costs of compliance with these laws may increase in the future as a result of changes in interpretation. Furthermore, any failure on our part to comply with these laws may subject us to significant liabilities.

We are also subject to federal, state, and foreign laws regarding privacy and protection of member data. Any failure by us to comply with these privacy-related laws and regulations could result in proceedings against us by governmental authorities or others, which could harm our business. In addition, the interpretation of data protection laws, and their application to the Internet is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from state to state, country to country, or region to region, and in a manner that is not consistent with our current data protection practices. Complying with these varying international requirements could

cause us to incur additional costs and change our business practices. Further, any failure by us to adequately protect our members' privacy and data could result in a loss of member confidence in our services and ultimately in a loss of members and customers, which could adversely affect our business.

We post on our website our privacy policy and user agreement, which describe our practices concerning the use, transmission and disclosure of member data. Any failure by us to comply with our privacy policy and user agreement could result in proceedings against us by members, customers, governmental authorities or others, which could harm our business.

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Many states have passed laws requiring notification to subscribers when there is a security breach of personal data. There are also a number of legislative proposals pending before the United States Congress, various state legislative bodies and foreign governments concerning data protection. In addition, data protection laws in Europe and other jurisdictions outside the United States may be more restrictive, and the interpretation and application of these laws are still uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business. Furthermore, the Digital Millennium Copyright Act has provisions that limit, but do not necessarily eliminate, our liability for linking to third-party websites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this Act. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Our client's consumers/brand advocates communicate across email, mobile, social and/or web-based channels. These communications are governed by a variety of U.S. federal, state, and foreign laws and regulations. With respect to email campaigns, for example, in the United States, the CAN-SPAM Act, establishes certain requirements for the distribution of “commercial” email messages for the primary purpose of advertising or promoting a commercial product, service, or Internet website and provides for penalties for transmission of commercial email messages that are intended to deceive the recipient as to source or content or that do not give opt-out control to the recipient. The U.S. Federal Trade Commission, a federal consumer protection agency, is primarily responsible for enforcing the CAN-SPAM Act, and the U.S. Department of Justice, other federal agencies, state attorneys general, and Internet service providers also have authority to enforce certain of its provisions.

The CAN-SPAM Act’s main provisions include:

- prohibiting false or misleading email header information;
- prohibiting the use of deceptive subject lines;
- ensuring that recipients may, for at least 30 days after an email is sent, opt out of receiving future commercial email messages from the sender, with the opt-out effective within 10 days of the request;
- requiring that commercial email be identified as a solicitation or advertisement unless the recipient affirmatively assented to receiving the message; and
- requiring that the sender include a valid postal address in the email message.

The CAN-SPAM Act preempts most state restrictions specific to email marketing. However, some states have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN-SPAM Act, particularly Utah and Michigan, which have enacted do-not-email registries listing minors who do not wish to receive unsolicited commercial email that markets certain covered content, such as adult content or content regarding harmful products. Some portions of these state laws may not be preempted by the CAN-SPAM Act.

Violations of the CAN-SPAM Act’s provisions can result in criminal and civil penalties, including statutory penalties that can be based in part upon the number of emails sent, with enhanced penalties for commercial email senders who harvest email addresses, use dictionary attack patterns to generate email addresses, and/or relay emails through a network without permission.

With respect to text message campaigns, for example, the CAN-SPAM Act and regulations implemented by the U.S. Federal Communications Commission pursuant to the CAN-SPAM Act, and the Telephone Consumer Protection Act, also known as the Federal Do-Not-Call law, among other requirements, prohibit companies from sending specified types of commercial text messages unless the recipient has given his or her prior express consent.

We, our clients and our client's consumers/brand advocates may all be subject to various provisions of the CAN-SPAM Act. If we are found to be subject to the CAN-SPAM Act, we may be required to change one or more aspects of the way we operate our business.

If we were found to be in violation of the CAN-SPAM Act, other federal laws, applicable state laws not preempted by the CAN-SPAM Act, or foreign laws regulating the distribution of commercial email, whether as a result of violations by our endorsers or any determination that we are directly subject to and in violation of these requirements, we could be required to pay penalties, which would adversely affect our financial performance and significantly harm our reputation and our business.

In addition, because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees, or infrastructure.

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Corporate History

We were incorporated as a Nevada corporation on March 2, 2007 under the name JJ&R Ventures, Inc. for the purpose of developing and marketing an educational book series, consisting of books, presentations and flash cards focusing on healthy nutrition for children. On or about July 2011, we were presented with a business opportunity by the management of a privately held Texas company named Blue Calypso Holdings, Inc. that upon evaluation was determined to be more desirable than our previous business plan. As a result, we suspended our efforts in relation to our original business plan and entered into negotiations with Blue Calypso Holdings, Inc. to consummate a reverse merger transaction.

In contemplation of a possible transaction with Blue Calypso Holdings, Inc., we changed our name from “JJ&R Ventures, Inc.” to “Blue Calypso, Inc.” on July 21, 2011 and completed a three and four tenths (3.4) for one (1) forward stock split of our common stock.

On September 1, 2011, we entered into an Agreement of Merger and Plan of Reorganization (the “Merger Agreement”) with Blue Calypso Holdings, Inc. and our newly formed wholly-owned subsidiary, Blue Calypso Acquisition Corp. Upon the closing of the transactions contemplated under the Merger Agreement, Blue Calypso Acquisition Corp. merged with and into Blue Calypso Holdings, Inc., and Blue Calypso Holdings, Inc. as the surviving corporation became our wholly-owned subsidiary. In connection with this merger, we discontinued all of our prior operations and assumed the business of Blue Calypso Holdings, Inc. as our sole line of business. We refer to this merger transaction as the “reverse merger.”

Immediately following the closing of the reverse merger, we transferred all of our pre-merger assets and liabilities to JJ&R Ventures Holdings, Inc., a wholly-owned subsidiary, and transferred all of the outstanding stock of JJ&R Ventures Holdings, Inc. to Deborah Flores, our then majority stockholder and our former president, secretary, treasurer and sole director, in exchange for the cancellation of 51,000,000 shares of our common stock then owned by Ms. Flores.

On October 17, 2011, we merged with and into Blue Calypso, Inc., a Delaware corporation and wholly-owned subsidiary, for the sole purpose of changing our state of incorporation from Nevada to Delaware. We refer to this merger transaction as the “reincorporation merger.”

ITEM 1A. RISK FACTORS.

Investing in our common stock involves a high degree of risk. Before investing in our common stock, you should carefully consider the risks described below and the financial and other information included in this Annual report. If any of the following risks, or any other risks not described below, actually occur, it is likely that our business, financial condition, and/or operating results could be materially adversely affected. In such case, the trading price and market value of our common stock could decline and you may lose part or all of your investment in our common stock. The risks and uncertainties described below include forward-looking statements and our actual results may differ from those discussed in these forward-looking statements.

Risks Relating to our Business

We have a history of losses which may continue, which may negatively impact our ability to achieve our business objectives.

We incurred net losses of $3,303,150 and $7,735,464 for the years ended December 31, 2015 and 2014, respectively. While a significant portion of the losses for the years ended December 31, 2015 and 2014 is attributed to non-cash

equity compensation expense, we cannot assure you that we can achieve or sustain profitability on a quarterly or annual basis in the future. Our operations are subject to the risks and competition inherent in the establishment of a business enterprise in the relatively new and volatile market for product marketing and branding through social media communities. Revenues and profits, if any, will depend upon various factors, including whether we will be able to continue expansion of our revenue model. We may not achieve our business objectives and the failure to achieve such goals would have an adverse impact on us.

Our limited operating history makes it difficult to evaluate our current business and future prospects.

We are an early stage company and we have generated very limited revenue to date. To date, our business focuses on the development of our patented proprietary technology platform, through which we offer various shopper marketing, social media advertising and loyalty campaigns, and the assertion of our patents. Therefore, we not only have a very limited operating history, but also a limited track record of executing our business model which includes, among other things, creating, prosecuting, licensing, litigating or otherwise monetizing our patent assets. Our limited operating history and limited revenues generated to date make it difficult to evaluate our current business model and future prospects.

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In light of the costs, uncertainties, delays and difficulties frequently encountered by companies in the early stages of development with minimal operating history, there is a significant risk that we will not be able to:

- implement or execute our current business plan, or demonstrate that our business plan is sound; and/or
- raise sufficient funds in the capital markets to effectuate our long-term business plan.

If we are unable to execute any one of the foregoing or similar matters relating to our operations, our business may fail.

We will require additional capital to support our present business plan and our anticipated business growth, and such capital may not be available on acceptable terms, or at all, which would adversely affect our ability to operate.

Based on our current operating plans, our current resources are expected to be sufficient to fund our planned operations into May 2016. We may also need to raise additional funds in connection with any acquisitions of technology or intellectual property assets that we pursue for a new opportunity to innovate our platform, a change in our approach to the market or to fund licensing and enforcement actions.

While we will need to seek additional funding, we may not be able to obtain financing on acceptable terms, or at all. If we are unable to obtain additional funding on a timely basis, we may be required to curtail or terminate some or all of our business plans.

Our independent registered public accounting firm's report contains an explanatory paragraph that expresses substantial doubt about our ability to continue as a going concern.

As of December 31, 2015, our accumulated deficit was $35,470,384. Primarily as a result of our recurring losses from operations, negative cash flows and our accumulated deficit, our independent registered public accounting firm has included in its report for the year ended December 31, 2015 an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is contingent upon, among other factors, our ability to obtain sufficient financing to support our operations. If we are not able to obtain sufficient financing to support our operations, we may be forced to limit or cease our operations.

The markets that we are targeting for revenue opportunities may change before we can access them.

The markets for traditional Internet and mobile web products and services that we target for revenue opportunities change rapidly and are being pursued by many other companies. Further, the barriers to entry are relatively low. Therefore, we cannot provide assurance that we will be able to realize our targeted revenue opportunities before they change or before other companies dominate the market. With the introduction of new technologies and the influx of new entrants to the market, we expect competition to persist and intensify in the future, which could harm our ability to increase sales, limit client attrition and maintain our prices.

We operate within a highly competitive and complex market, which could have an adverse effect on our business.

Technology for retail, product advertising, marketing, awareness and branding is an extremely competitive and fragmented industry. The industry can be significantly affected by many factors, including changes in local, regional, and national economic conditions, changes in consumer preferences, brand name recognition, marketing and the development of new and competing products or technologies. We expect that existing businesses that compete with us and have greater financial resources will be able to undertake more extensive marketing campaigns and more aggressive advertising strategies than us, thereby generating more attention to their companies. These competitive pressures could have a material adverse effect on our business, prospects, financial condition, and results of

operations.

We are presently reliant exclusively on a limited number of patented technologies.

We derive substantially all of our revenue from a relatively small number of key technologies. As new technological advances occur, many of our patented technologies may become obsolete before they are completely monetized. If we are unable to monetize our current patent assets for any reason, including obsolescence of our technology, the expiration of our patents or any other reason, we may be unable to acquire additional assets. If this occurs, our business and prospects would be materially harmed.

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Any failure to protect or enforce our patent or other intellectual property rights could significantly impair our business.

Our ability to successfully operate our business depends largely on the validity and enforceability of our patent rights and the relevance of our patent rights to commercially viable products or services. Third parties have challenged, and we expect will continue to challenge, the infringement, validity and enforceability of certain of our patents. In some instances, our patent claims could be substantially narrowed or declared invalid, unenforceable, not essential or not infringed. We cannot assure you that the validity and enforceability of our patents will be maintained or that our patent claims will be applicable to any particular product or service. In addition, the U.S. Patent and Trademark Office, or the "USPTO," could invalidate or render unenforceable our current or future patents (if any) or materially narrow the scope of their claims during the course of a re-examination. Any significant adverse finding as to the validity, enforceability or scope of certain of our patents and/or any successful design around certain of our patents could materially and adversely affect our ability to secure future settlements or licenses on beneficial terms, if at all, and otherwise harm our business.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00034, CBM2013-00046 and CBM2013-00044. In each case, certain claims of each patent were held to be invalid for various reasons. With respect to the '516, '679, '055 and '646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the '670 patent were held invalid. The Company appealed each of the final decisions to the United States Federal Circuit Court of Appeals. The Company appealed the unpatentability determinations including the decision of invalidity based on anticipation of several claims of the patents by prior art (the Paul reference). The Company also appealed the decision to review its patents under the provisions for CBMR and that the '516 patent lacked sufficient written description under § 112 to support the claims. Groupon appealed the Board's decision that the patents were not valid under § 103 and the determination by the PTAB that a certain reference (the Ratismor reference) was not publically available prior art.

On March 1, 2016, the Federal Circuit overturned the PTAB decision as to insufficient written description but upheld the decision that the Ratismore reference was not publically available prior art. However, the Federal Circuit confirmed the Board's decision to institute the CBMR process on the basis that Blue Calypso's patent portfolio qualified as a business method patent which was financial in nature. The Federal Circuit also upheld the decision of invalidity based on anticipation of several claims of the patents by the prior art (the Paul reference).

The Company has an option to pursue an en banc review of the holding with respect to anticipation by the Paul reference. An en banc review would occur before a panel of eight judges of the Federal Circuit as compared to the recently completed appeals process which utilized three. We also have the option of requesting that the Supreme Court review the Federal Circuit's decision. These options for appeal must be filed within 30 and 90 days respectively from the date of the March 1, 2016 decision.

The reversal of the written description matter is significant as it re-establishes the '516 parent patent issue date of February 2010 as the date that damages begin to accrue. Prior to this reversal the first date of infringement was relegated to the later issue date of the '679 patent on April 2012.

The court dockets for each case, including the parties' briefs are publicly available on the Public Access to Court Electronic Records website, or PACER, www.pacer.gov, which is operated by the Administrative Office of the U.S. Courts.

The value of our patent assets may decline.

We will likely be required to spend significant time and resources to maintain the effectiveness of our issued patents by paying maintenance fees and making filings with the USPTO as well as prosecuting our patent applications. In the future, we may acquire patent assets, including patent applications, which require us to spend resources to prosecute the applications with the USPTO.

Despite efforts to protect our intellectual property rights, any of the following or similar occurrences may reduce the value of our intellectual property:

- our applications for patents may not be granted and, if granted, may be challenged or invalidated;
- issued patents may not provide us with any competitive advantages versus potentially infringing parties;
- our efforts to protect our intellectual property rights may not be effective in preventing misappropriation of our technology; or
- our efforts may not prevent the development and design by others of products or technologies similar to or competitive with, or superior to those we acquire and/or prosecute.

Moreover, we may not be able to effectively protect our intellectual property rights in certain foreign countries where we may do business in the future or where competitors may operate. If we fail to maintain, defend or prosecute our patent assets properly, the value of those assets would be reduced or eliminated, and our business would be harmed.

We commenced legal proceedings against several companies and we expect such proceedings to be time-consuming, which may adversely affect our ability to operate our business.

We commenced legal proceedings against certain daily deal, social promotion and check-in applications (including Groupon, LivingSocial, Yelp, IZEA, MyLikes, and Foursquare), pursuant to which we alleged that such companies infringe on our patents. Certain of these defendants have substantially more resources than we do, which could make our litigation efforts more difficult. We reached settlement in our patent infringement disputes with MyLikes in July 2013, with LivingSocial in August 2013 with IZEA in August 2015, and with Yelp in September 2015.

We anticipate that certain of our ongoing legal proceedings may continue for several years and will require significant attention from our senior management. Disputes regarding the assertion of patents and other intellectual property rights are highly complex and technical. Once initiated, we may be forced to litigate against others to enforce or defend our intellectual property rights or to determine the validity and scope of other parties' proprietary rights. The defendants or other third parties involved in the lawsuits in which we are involved may allege defenses and/or file counterclaims in an effort to avoid or limit liability and damages for patent infringement. If such defenses or counterclaims are successful, they may preclude our ability to derive licensing revenue from the patents. A negative outcome of any such litigation, or one or more claims contained within any such litigation, could materially and adversely impact our business. Our failure to monetize our patent assets could significantly harm our business and financial position.

While we believe that the patents we own are being infringed by certain leading daily deal, social promotion and check-in applications, there is a risk that a court will find the patents invalid, not infringed or unenforceable and/or that the U.S. Patent Office (USPTO) will either invalidate the patents or materially narrow the scope of their claims during the course of a re-examination. In addition, even with a positive trial court verdict, the patents may be invalidated, found not infringed or rendered unenforceable on appeal. This risk may occur either presently or from time to time in connection with future litigations we may bring. If this were to occur, it could have a material adverse effect on the viability of our company and our operations.

We believe that there are companies that have, and continue to, infringe our patents, but actually obtaining and collecting a judgment against such companies may be difficult or impossible. Patent litigation is inherently risky and the outcome is uncertain. Some of the parties we believe infringe on our patents are large and well-financed companies with substantially greater resources than ours. We believe that these parties would devote a substantial amount of resources in an attempt to avoid or limit a finding that they are liable for infringing our patents or, in the event liability is found, to avoid or limit the amount of associated damages. In addition, there is a risk that these parties may file re-examinations or other proceedings with the USPTO or other government agencies in an attempt to invalidate, narrow the scope or render unenforceable the patents we own.

Moreover, in connection with any of our present or future patent enforcement actions, it is possible that a defendant may request and/or a court may rule that we violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against us or our operating subsidiaries or award attorneys' fees and/or expenses to one or more defendants, which could be material, and if we or our subsidiaries are required to pay such monetary sanctions, attorneys' fees and/or expenses, such payment could materially harm our operating results and financial position.

In addition, it is difficult in general to predict the outcome of patent enforcement litigation at the trial or appellate level. There is a higher rate of appeals in patent enforcement litigation than standard business litigation. The defendants in any patent action we bring in the United States may file an appeal to the Court of Appeals to the Federal Circuit and possibly in the United States Supreme Court. Such appeals are expensive and time-consuming, and the

outcomes of such appeals are sometimes unpredictable, resulting in increased costs and reduced or delayed revenue.

Finally, we believe that the more prevalent patent enforcement actions become, the more difficult it will be for us to license our patents without engaging in litigation. As a result, we may need to increase the number of our patent enforcement actions to cause infringing companies to license the patent or pay damages for lost royalties. This will adversely affect our operating results due to the high costs of litigation and the uncertainty of the results.

Trial judges and juries often find it difficult to understand complex patent enforcement litigation, and as a result, we may need to appeal adverse decisions by lower courts in order to successfully enforce our patents.

It is difficult to predict the outcome of patent enforcement litigation at the trial level. It is often difficult for juries and trial judges to understand complex, patented technologies, and as a result, there is a higher rate of successful appeals in patent enforcement litigation than more standard business litigation. Such appeals are expensive and time consuming, resulting in increased costs and delayed revenue. Although we will diligently pursue enforcement litigation, we cannot predict with significant reliability the decisions made by juries and trial courts.

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Federal courts are becoming more crowded, and as a result, patent enforcement litigation is taking longer.

Federal trial courts that hear our patent enforcement actions also hear criminal cases. Criminal cases always take priority over patent enforcement actions. As a result, it is difficult to predict the length of time it will take to complete an enforcement action. Moreover, we believe there is a trend in increasing numbers of civil lawsuits and criminal proceedings before federal judges, and as a result, we believe that the risk of delays in our patent enforcement actions will have a greater effect on our business in the future unless this trend changes.

If a court finds that any of our patents are invalid or narrows their scope over the course of a re-examination or we are otherwise unable to protect our proprietary rights, our ability to competitively conduct our business will be adversely effected.

We rely on our proprietary rights to deliver our platform. To protect our proprietary rights, we rely on a combination of patent and trade secret laws, confidentiality agreements, and protective contractual provisions. Despite these efforts, our patents and intellectual property relating to our business may not provide us with adequate protection of our platform or any competitive advantages.

Our five issued patents have been and may be subjected to further challenge and possibly invalidated by third parties. Changes in either the patent laws or in the interpretations of patent laws in the United States or other countries may diminish the value of our intellectual property.

We own eleven pending patent applications in the United States. We cannot assure that these patent applications will be issued, in whole or in part, as patents. Patent applications in the United States are maintained in secrecy until the patents are published or issued. Since publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months, we cannot be certain that we are the first creator of the inventions covered by pending patent applications.

The status of patents involves complex legal and factual questions and the breadth of claims allowed is uncertain. Accordingly, we cannot be certain that the patent applications that we file will actually afford protection against competitors with similar technology. Others may independently develop similar or alternative products and technologies that may be outside the scope of our intellectual property. In addition, patents issued to us may be infringed upon or designed around by others and others may obtain blocking patents that we need to license or design around, either of which would increase costs and may adversely affect our operations.

Further, effective protection of intellectual property rights may be unavailable or limited in some foreign countries. Our inability to adequately protect our proprietary rights would have an adverse impact on our ability to competitively market our platform on a world-wide basis.

We also rely on trade secrets law to protect our technology. Trade secrets, however, are difficult to protect. While we believe that we use reasonable efforts to protect our trade secrets, our or our strategic partners' employees, consultants, contractors or advisors may unintentionally or willfully disclose our information to competitors. We seek to protect this information, in part, through the use of non-disclosure and confidentiality agreements with employees, consultants, advisors, and others. However, these agreements may be breached and we may not have adequate remedies for a breach. In addition, we cannot ensure that those agreements will provide adequate protection for our trade secrets, know-how or other proprietary information or prevent their unauthorized use or disclosure.

If our trade secrets become known to competitors with greater experience and financial resources, the competitors may copy or use our trade secrets and other proprietary information in the advancement of their products, methods or technologies. If we were to prosecute a claim that a third party had illegally obtained and was using our trade secrets,

it could be expensive and time consuming and the outcome could be unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets than courts in the United States. Moreover, if our competitors independently develop equivalent knowledge, we would lack any contractual claim to this information, and our business could be harmed.

To the extent that consultants and key employees apply technological information independently developed by them or by others to our potential products, disputes may arise as to the proprietary rights of the information, which may not be resolved in our favor. Consultants and key employees that work with our confidential and proprietary technologies are required to assign all intellectual property rights in their discoveries to us. However, these consultants and key employees may terminate their relationship with us, and we cannot preclude them indefinitely from dealing with our competitors.

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We may seek to internally develop additional new inventions and intellectual property, which would take time and would be costly. Moreover, the failure to obtain or maintain intellectual property rights for such inventions could lead to the loss of our investments in such activities.

Members of our management team have significant experience as inventors. As such, part of our business may include the internal development of new inventions or intellectual property that we will seek to monetize. However, this aspect of our business would likely require significant capital and would be time consuming. Such activities could also distract our management team from its present business initiatives, which could have a material and adverse effect on our business. There is also the risk that our initiatives in this regard would not yield any viable new inventions or technology, which would lead to a loss of our investments in time and resources in such activities.

In addition, even if we are able to internally develop new inventions, in order for those inventions to be viable and to compete effectively, we would need to develop and maintain a proprietary position with respect to such inventions and intellectual property. However, there are significant risks associated with any such intellectual property we may develop principally including the following:

- patent applications we file may not result in issued patents or may take longer than we expect to result in issued patents;
- we may be subject to interference proceedings;
- we may be subject to opposition proceedings in the U.S. or foreign countries;
- any patents that are issued to us may not provide meaningful protection;
- we may not be able to develop additional proprietary technologies that are patentable;
- other companies may challenge patents issued to us;
- other companies may have independently developed and/or patented (or may in the future independently develop and patent) similar or alternative technologies, or duplicate our technologies;
- other companies may design around technologies we have developed; and
- enforcement of our patents would be complex, uncertain and very expensive.

We cannot be certain that patents will be issued as a result of any future applications, or that any of our patents, once issued, will provide us with adequate protection from competing products. For example, issued patents may be circumvented or challenged, declared invalid or unenforceable, or narrowed in scope. In addition, since publication of discoveries in scientific or patent literature often lags behind actual discoveries, we cannot be certain that we will be the first to make our additional new inventions or to file patent applications covering those inventions. It is also possible that others may have or may obtain issued patents that could prevent us from commercializing our products or require us to obtain licenses requiring the payment of significant fees or royalties in order to enable us to conduct our business. As to those patents that we may license or otherwise monetize, our rights will depend on maintaining our obligations to the licensor under the applicable license agreement, and we may be unable to do so. Our failure to obtain or maintain intellectual property rights for our inventions would lead to the loss of our investments in such activities, which would have a material and adverse effect on our company.

Moreover, patent application delays could cause delays in recognizing revenue from our internally generated patents and could cause us to miss opportunities to license patents before other competing technologies are developed or introduced into the market.

We could become involved in intellectual property disputes that create a drain on our resources and could ultimately impair our assets.

We do not knowingly infringe on any patents, copyrights or other intellectual property rights owned by other parties; however, in the event of an infringement claim, we may be required to spend a significant amount of

money to defend a claim, develop a non-infringing alternative or to obtain licenses. We may not be successful in developing such an alternative or obtaining licenses on reasonable terms, if at all. Any litigation, even if without merit, could result in substantial costs and diversion of our resources and could materially and adversely affect our business and operating results.

Third-party intellectual property rights in our field are complicated and continuously evolving. We have not performed searches for third-party intellectual property rights that may raise freedom-to-operate issues, and we have not obtained legal opinions regarding commercialization of our potential products. As such, there may be existing patents that may affect our ability to commercialize our potential products.

In addition, because patent applications are published up to 18 months after their filing, and because applications can take several years to issue, there may be currently pending third-party patent applications that are unknown to us, which may later result in issued patents that result in challenges to our use of intellectual property.

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If a third party claims that we infringe on its patents or other proprietary rights, we could face a number of issues that could seriously harm our competitive position, including:

- infringement claims, with or without merit, which can be costly and time consuming to litigate, delay any regulatory approval process and divert management's attention from our core business strategy;
- substantial damages for past infringement, which we may have to pay if a court determines that our products or technologies infringe upon a competitor's patent or other proprietary rights; and
- a court order prohibiting us from commercializing our potential products or technologies unless the holder licenses the patent or other proprietary rights to us, which such holder is not required to do.

Future competitive technology for advertising, branding and awareness campaigns in the mobile device market may render our technology obsolete.

Newer technology may render our technology obsolete which would have a material adverse effect on our business and results of operations. In addition, in order to adapt to new technology, we may be required to collaborate with third parties to develop and deploy our services, and we may not be able to do so on a timely and cost-effective basis, if at all.

New legislation, regulations or court rulings related to enforcing patents could harm our business and operating results.

If Congress, the USPTO or courts implement new legislation, regulations or rulings that impact the patent enforcement process or the rights of patent holders, these changes could negatively affect our business model. For example, limitations on the ability to bring patent enforcement claims, limitations on potential liability for patent infringement, lower evidentiary standards for invalidating patents, increases in the cost to resolve patent disputes and other similar developments could negatively affect our ability to assert our patent or other intellectual property rights.

Recently, United States patent laws were amended with the enactment of the Leahy-Smith America Invents Act, or the America Invents Act, which took effect on March 16, 2013. The America Invents Act includes a number of significant changes to U.S. patent law. In general, the legislation attempts to address issues surrounding the enforceability of patents and the increase in patent litigation by, among other things, establishing new procedures for patent litigation. For example, the America Invents Act changes the way that parties may be joined in patent infringement actions, increasing the likelihood that such actions will need to be brought against individual parties allegedly infringing by their respective individual actions or activities. At this time, it is not clear what, if any, impact the America Invents Act will have on the operation of our enforcement business. However, the America Invents Act and its implementation could increase the uncertainties and costs surrounding the enforcement of our patented technologies, which could have a material adverse effect on our business and financial condition.

On December 5, 2013, the United States House of Representatives passed a patent reform titled the Innovation Act by a vote of 325-91. Representative Bob Goodlatte, with bipartisan support, introduced the Innovation Act on October 23, 2013. The Innovation Act, as passed by the House, has a number of major changes. Some of the changes include a heightened pleading requirement for the filing of patent infringement claims. It requires a particularized statement with detailed specificity regarding how each asserted claim term corresponds to the functionality of each accused instrumentality. The Innovation Act, as passed by the House, also includes fee-shifting provisions which provide that, unless the non- prevailing party of a patent infringement litigation positions were objectively reasonable, such non-prevailing party would have to pay the attorney's fees of the prevailing party.

The Innovation Act also calls for discovery to be limited until after claim construction. The patent infringement plaintiff must also disclose anyone with a financial interest in either the asserted patent or the patentee and must

disclose the ultimate parent entity. When a manufacturer and its customers are sued at the same time, the suit against the customer would be stayed as long as the customer agrees to be bound by the results of the case.

On April 29, 2014, the U.S. Supreme Court relaxed the standard for fee shifting in patent infringement cases. Section 285 of the Patent Act provides that attorneys' fees may be awarded to a prevailing party in a patent infringement case in "exceptional cases."

In Octane Fitness, LLC v. Icon Health & Fitness, Inc., the Supreme Court overturned the U.S. Court of Appeals for the Federal Circuit decisions limiting the meaning of "exceptional cases." The U.S. Supreme Court held that an exceptional case "is simply one that stands out from others with respect to the substantive strength of a party's litigation position" or "the unreasonable manner in which the case was litigated." The U.S. Supreme Court also rejected the "clear and convincing evidence" standard for making this inquiry. The Court held that the standard should a "preponderance of the evidence."

In Highmark Inc. v. Allcare Health Mgmt. Sys., Inc., the U.S. Supreme Court held that a district court's grant of attorneys' fees is reviewable by the U.S. Court of Appeals for the Federal Circuit only for "abuse of discretion" by the district court instead of the de novo standard that gave no deference to the district court.

These pair of decisions lowered the threshold for obtaining attorneys' fees in patent infringement cases and increased the level of deference given to a district court's fee-shifting determination.

These two cases will make it much easier for district courts to shift a prevailing party's attorneys' fees to a non-prevailing party if the district court believes that the case was weak or conducted in an abusive manner. Defendants that get sued for patent infringement by non- practicing entities may elect to fight rather than settle the case because these U.S. Supreme Court decisions make it much easier for defendants to get attorneys' fees.

On June 19, 2014, the U.S. Supreme Court decided Alice Corp. v. CLS Bank International in which the Court addressed the question of whether patents related to software are patent eligible subject matter. The Supreme Court did not rule that patents related to software were per se invalid or that software-related inventions were unpatentable. The Supreme Court outlined a test that the courts and the USPTO must apply in determining whether software-related inventions qualify as patent eligible subject matter. We must now wait and see how the federal district courts and the USPTO will apply this ruling. The test outlined by the Supreme Court could potentially affect the value of some of the patents we hold.

On December 16, 2014, the USPTO published a new set of guidelines directed at its patent examiners in response to solicited and received feedback from the public. The guidelines significantly changed what examiners can and cannot consider patent eligible material in applications based on recent Court decisions. The guidelines summarize recent court decisions with explanations of the facts, and include a discussion of claims and how to apply them to similar situations moving forward. Because the guidelines are new, it is difficult to foresee with clarity how they will be applied.

On February 5, 2015 House Judiciary Committee Chairman Bob Goodlatte (R-Va.) reintroduced a patent reform bill, now called the Innovation Act of 2015. The bill, as introduced, includes the following provisions:

Heightened pleading requirements – A patent holder filing an infringement suit, at the time of filing, must include a set of infringement charts showing how each limitation of each asserted claims in each asserted patent is found within each accused product or instrumentality.

Presumption of attorney fees – A court would be required to award attorney fees and "other expenses" to the prevailing party unless a judge "finds the position and conduct of the non-prevailing reasonably justified in law and fact or under special circumstances."

IPR claim construction – The USPTO would be required to construe claims in post-issuance reviews in the same manner as a district court.

Discovery limits – Discovery in litigation would be limited until after a claim construction ruling.

Willful infringement – Can lead to treble damages.

Transparency of ownership – The patent owner must disclose "the ultimate parent entity" of any assignee of the patent.

Stay of customer suits – In limited cases, the courts will stay customer lawsuits when the manufacturing of the accused product steps up to challenge the patent.

Foreign Bankruptcy – The bill would stop the practice of a bankruptcy executor canceling US IP licenses in foreign bankruptcies.

Codifying double patenting – The proposal would allow prior filings by overlapping inventors to count as prior art unless a terminal disclaimer is filed.

The bill is not yet law, but enjoys wide support in both houses and may soon become law.

Further, and in general, it is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any of the proposals will become enacted as laws. Compliance with any new or existing laws or regulations could be difficult and expensive, affect the manner in which we conduct our business and negatively impact our business, prospects, financial condition and results of operations.

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Our dependence on the continued growth in the use of the web and mobile smartphone networking could adversely affect our results of operations.

Our business depends on consumers continuing to increase their use of the mobile smartphone for social networking, to obtain product content, reward type offers as well as for conducting commercial transactions. The rapid growth and use of the smartphone as an information conduit is a relatively recent phenomenon. As a result, the acceptance and use of smartphones may not continue to develop at historical rates. Mobile web usage may be inhibited for a number of reasons, such as inadequate network infrastructure, security concerns, inconsistent quality of service and availability of cost-effective, high-speed service or smart mobile devices.

If mobile web usage grows, the mobile Internet infrastructure may not be able to support the demands placed on it by this growth or its performance and reliability may decline. In addition, websites and mobile networks have experienced interruptions in their service as a result of outages and other delays occurring throughout the Internet and mobile network infrastructure. If these outages and delays occur frequently in the future, web usage, as well as usage of our website, could grow more slowly or decline, which could adversely affect our results of operations.

Difficulty accommodating increases in the number of users of our services and Internet service problems outside of our control ultimately could result in the reduction of users.

Our platform must accommodate a high volume of mobile traffic and deliver frequently updated information. Our platform may in the future experience slower response times or other problems for a variety of reasons. In addition, our platform could experience disruptions or interruptions in service due to the failure or delay in the transmission or receipt of this information. In addition, our users depend on Internet and mobile service providers, online service providers and other website operators for access to our platform. Each of them has experienced significant outages in the past, and could experience outages, delays and other difficulties due to system failures unrelated to our systems.

Given our early stage of development, we are still developing our regulatory compliance program and our failure to comply with existing and future regulatory requirements could adversely affect our business, results of operations and financial condition.

Aspects of the digital marketing and advertising industry and how our business operates are highly regulated. We are subject to a number of domestic and, to the extent our operations are conducted outside the U.S., foreign laws and regulations that affect companies conducting business on the Internet and through other electronic means, many of which are still evolving and could be interpreted in ways that could harm our business. In particular, we are subject to rules of the FTC, the Federal Communications Commission (FCC) and potentially other federal agencies and state laws related to our advertising content and methods, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or CAN-SPAM Act, which establishes certain requirements for commercial electronic mail messages and specifies penalties for the transmission of commercial electronic mail messages that follow a recipient's opt-out request or are intended to deceive the recipient as to source or content, federal and state regulations covering the treatment of member data that we collect from endorsers.

U.S. and foreign regulations and laws potentially affecting our business are evolving frequently. We are, and will continue to update and improve our regulatory compliance features and functionality, and we will need to continue to identify and determine how to effectively comply with all the regulations to which we are subject now or in the future. If we are unable to identify all regulations to which our business is subject and implement effective means of compliance, we could be subject to enforcement actions, lawsuits and penalties, including but not limited to fines and other monetary liability or injunction that could prevent us from operating our business or certain aspects of our business. In addition, compliance with the regulations to which we are subject now or in the future may require changes to our products or services, restrict or impose additional costs upon the conduct of our business or cause users

to abandon material aspects of our services. Any such action could have a material adverse effect on our business, results of operations and financial condition.

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Existing federal, state and foreign laws regulating email and text messaging marketing practices impose certain obligations on the senders of commercial emails and text messages, which could minimize the effectiveness of our on-demand software or increase our operating expenses to the extent financial penalties are triggered.

The CAN-SPAM Act, establishes certain requirements for commercial email messages and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content. The CAN-SPAM Act, among other things, obligates the sender of commercial emails, and someone who initiates commercial emails, to provide recipients with the ability to opt out of receiving future emails from the sender. In addition, some states have passed laws regulating commercial email practices that are significantly more punitive and difficult to comply with than the CAN-SPAM Act, particularly Utah and Michigan, which have enacted do-not-email registries listing minors who do not wish to receive unsolicited commercial email that markets certain covered content, such as adult content or content regarding harmful products. Some portions of these state laws may not be preempted by the CAN-SPAM Act. We, our clients and our client's consumers/brand advocates may all be subject to various provisions of the CAN-SPAM Act. If we are found to be subject to the CAN-SPAM Act, we may be required to change one or more aspects of the way we operate our business, including by eliminating the option for endorsers to send emails containing our advertisers’ messages or by not allowing endorsers to receive compensation directly or indirectly as a result of distributing emails containing our advertisers’ messages.

If we were found to be in violation of the CAN-SPAM Act, other federal laws, applicable state laws not preempted by the CAN-SPAM Act, or foreign laws regulating the distribution of commercial email, whether as a result of violations by our endorsers or any determination that we are directly subject to and in violation of these requirements, we could be required to pay penalties, which would adversely affect our financial performance and significantly harm our reputation and our business.

Security breaches and other disruptions could compromise our information and expose us to liability, which could cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our endorsers, and personally identifiable information of our endorsers and employees in our data center and on our network. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our network and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of information, disrupt our operations and the services we provide to customers, and damage our reputation, which could adversely affect our business, revenues and competitive position.

We could be subject to enforcement action or civil liability under federal and state law regarding privacy and the use and sharing of personal information.

Our business model includes the collection of certain personal information from our customers and platform users. Federal and state privacy laws regulate the circumstances under which we may use or share this information. We take steps to ensure our compliance with these laws, and we take steps to ensure compliance by those with whom we share personal information through non-disclosure agreements and contract provisions. Nonetheless, we may be subject to federal or state governmental enforcement action or civil litigation for improper use or sharing of personal identifying information. This risk could result in substantial costs to our business and materially and adversely affect our business and operating results. Further, if any party overcomes our physical, electronic, and procedural safeguards implemented to protect personal information, we may be subject to federal or state governmental enforcement action or civil

litigation for inadequately protecting personal identifying information.

Risks Relating to Our Common Stock

We have not paid dividends in the past and do not expect to pay dividends in the future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate doing so in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

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Because we became public by means of a reverse merger, we may not be able to attract the attention of major brokerage firms.

There may be risks associated with us becoming public through a "reverse merger" with a shell company. Although the shell company did not have recent or past operations or assets and we performed a due diligence review of the shell company, there can be no assurance that we will not be exposed to undisclosed liabilities resulting from the prior operations of the shell company. Securities analysts of major brokerage firms and securities institutions may also not provide coverage of us because there were no broker-dealers who sold our stock in a public offering that would be incentivized to follow or recommend the purchase of our common stock. The absence of such research coverage could limit investor interest in our common stock, resulting in decreased liquidity. No assurance can be given that established brokerage firms will, in the future, want to cover our securities or conduct any secondary offerings or other financings on our behalf.

The public trading market for our common stock is volatile and may result in higher spreads in stock prices, which may limit the ability of our investors to sell their Shares at a profit, if at all.

Our common stock trades in the over-the-counter market and is quoted on the Over-the-Counter Bulletin Board, or OTCBB, and in the Over-the-Counter Markets on the OTCQB. The over-the-counter market for securities has historically experienced extreme price and volume fluctuations during certain periods. These broad market fluctuations may adversely affect the market price of our common stock and result in substantial losses to our investors. In addition, the spreads on stock traded through the over-the-counter market are generally unregulated and higher than on national stock exchanges, which means that the difference between the price at which shares could be purchased by investors in the over-the-counter market compared to the price at which they could be subsequently sold would be greater than on these exchanges. Significant spreads between the bid and asked prices of the stock could continue during any period in which a sufficient volume of trading is unavailable or if the stock is quoted by an insignificant number of market makers. Historically our trading volume has been insufficient to significantly reduce this spread and we have had a limited number of market makers sufficient to affect this spread. These higher spreads could adversely affect investors who purchase the shares at the higher price at which the shares are sold, but subsequently sell the shares at the lower bid prices quoted by the brokers. Unless the bid price for the stock exceeds the price paid for the shares by the investor, plus brokerage commissions or charges, the investor could lose money on the sale. For higher spreads such as those on over-the-counter stocks, this is likely a much greater percentage of the price of the stock than for exchange listed stocks. There is no assurance that at the time an investor in our common stock wishes to sell the shares, the bid price will have sufficiently increased to create a profit on the sale.

We do not know whether a market for our common stock will be sustained or what the market price of our common stock will be and as a result it may be difficult for you to sell your shares of our common stock.

Although our common stock now trades on the OTCBB and OTCQB, an active trading market for our shares may not be sustained. It may be difficult for our stockholders to sell their shares without depressing the market price for our shares or at all. As a result of these and other factors, our stockholders may not be able to sell their shares. Further, an inactive market may also impair our ability to raise capital by selling shares of our common stock and may impair our ability to enter into strategic partnerships or acquire companies or products by using our shares of common stock as consideration. If an active market for our common stock does not develop or is not sustained, it may be difficult for our stockholders to sell shares of our common stock.

Our cash flows are unpredictable, and this may harm our financial condition or the market price for our common stock.

The amount and timing of cash flows from our licensing and enforcement activities are subject to uncertainties stemming primarily from uncertainties regarding the rates of adoption of our patented technologies, the growth rates of our licensees, the outcome of enforcement actions and certain other factors. As such, our income and cash flows may vary significantly from period to period, which could make our business difficult to manage, adversely affect our business and operating results, cause our annual or quarterly results to fall below market expectations and adversely affect the market price of our common stock.

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The market price for our common stock may fluctuate significantly, which could result in substantial losses by our investors.

The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, such as:

- the outcomes of our current and potential future patent litigation;
- our ability to monetize our patents;
- changes in our industry;
- announcements of technological innovations, new products or product enhancements by us or others;
- announcements by us of significant strategic partnerships, out-licensing, in-licensing, joint ventures, acquisitions or capital commitments;
- changes in earnings estimates or recommendations by security analysts, if our common stock is covered by analysts;
- investors' general perception of us;
- future issuances of common stock;
- the addition or departure of key personnel;
- general market conditions, including the volatility of market prices for shares of technology companies, generally, and other factors, including factors unrelated to our operating performance; and
- the other factors described in this "Risk Factors" section.

These factors and any corresponding price fluctuations may materially and adversely affect the market price of our common stock and result in substantial losses by our investors.

Further, the stock market in general, and the market for technology companies in particular, has experienced extreme price and volume fluctuations in the past. Continued market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock.

Price volatility of our common stock might be worse if the trading volume of our common stock is low. In the past, following periods of market volatility, stockholders have often instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and attention of management from our business, even if we are successful. Future sales of our common stock could also reduce the market price of such stock.

Moreover, the liquidity of our common stock is limited, not only in terms of the number of shares that can be bought and sold at a given price, but by delays in the timing of transactions and reduction in security analysts' and the media's coverage of us, if any. These factors may result in lower prices for our common stock than might otherwise be obtained and could also result in a larger spread between the bid and ask prices for our common stock. In addition, without a large float, our common stock is less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. In the absence of an active public trading market, an investor may be unable to liquidate its investment in our common stock. Trading of a relatively small volume of our common stock may have a greater impact on the trading price of our stock than would be the case if our public float were larger. We cannot predict the prices at which our common stock will trade in the future.

Some or all of the "restricted" shares of our common stock issued in connection with the closing of the reverse acquisition transaction in September 2011 or held by other of our stockholders may be offered from time to time in the open market pursuant to an effective registration statement or Rule 144 promulgated under Regulation D of the Securities Act, or Rule 144, and these sales may have a depressive effect on the market for our common stock.

Our common stock is a "penny stock," which makes it more difficult for our investors to sell their shares.

Our common stock is subject to the “penny stock” rules adopted under Section 15(g) of the Securities Exchange Act of 1934, as amended. The penny stock rules generally apply to companies whose common stock is not listed on The NASDAQ Stock Market or other national securities exchange and trades at less than $5.00 per share, other than companies that have had average revenue of at least $6,000,000 for the last three years or that have tangible net worth of at least $5,000,000 ($2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than “established customers” complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in such securities is limited. If we remain subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for our securities. If our securities are subject to the penny stock rules, investors will find it more difficult to dispose of our securities.

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Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

If our stockholders sell substantial amounts of our common stock in the public market, it could create a circumstance commonly referred to as an "overhang," in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Our stockholders may experience substantial dilution as a result of the conversion of outstanding convertible preferred stock, convertible debentures, convertible notes, or the exercise of options and warrants to purchase shares of our common stock.

As of March 21, 2016, we have outstanding granted options to purchase 629,628 shares of common stock and have reserved 691,600 shares of our common stock for issuance upon the exercise of options pursuant to our 2011 Long-Term Incentive Plan. In addition, as of March 21, 2016, we have reserved 821,061 shares of our common stock for issuance upon exercise of outstanding warrants. As of March 21, 2016, we have also reserved 120,533 shares of our common stock for issuance to certain vendors for services provided.

Because our directors and executive officers are among our largest stockholders, they can exert significant control over our business and affairs and have actual or potential interests that may depart from those of our other stockholders.

Our directors and executive officers own or control a significant percentage of our common stock. Additionally, the holdings of our directors and executive officers may increase in the future upon vesting or other maturation of exercise rights under any of the options or warrants they may hold or in the future be granted or if they otherwise acquire additional shares of our common stock. As of March 21, 2016, our officers and directors beneficially own approximately 16.0% of the outstanding shares of our common stock. The interests of such persons may differ from the interests of our other stockholders. As a result, in addition to their board seats and offices, such persons will have significant influence over and control all corporate actions requiring stockholder approval, irrespective of how our other stockholders may vote, including the following actions:

- to elect or defeat the election of our directors;
- to amend or prevent amendment of our certificate of incorporation or bylaws;
- to effect or prevent a merger, sale of assets or other corporate transaction; and
- to control the outcome of any other matter submitted to our stockholders for vote.

In addition, such persons' stock ownership may discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could reduce our stock price or prevent our stockholders from realizing a premium over our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES

We owned no properties and had three property leases at December 31, 2015. Two property leases relate to our subsidiary Blue Calypso of Latin America, S.A for office space in the same building located in San Jose, Costa Rica.

We also currently have a lease for office space at our current headquarters in Richardson, TX.

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ITEM 3. LEGAL PROCEEDINGS

On July 31, 2012, the Company filed suit against Groupon, Inc. in the Eastern District of Texas in Civil Action No. 6:12-cv-00486. The Company filed additional suits against IZEA, Inc. on October 17, 2012; Yelp, Inc. on October 17, 2012; and Foursquare Labs, Inc. on October 31, 2012 in Civil Action Nos. 6:12-cv-786, 6:12-cv-788, 6:12-cv-837, respectively. Each of these cases alleges that the defendants infringe U.S. Patent Nos. 7,664,516 entitled "Method and System for Peer-to-Peer Advertising Between Mobile Communication Devices" and 8,155,679 entitled "System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices." The Company subsequently added U.S. Patent Nos. 8,438,055, 8,452,646, and 8,457,670 to the cases, alleging each defendant infringed the newly added patents. Each of the defendants have answered, denying infringement and claiming that the asserted patents are invalid. Groupon, Yelp, and Foursquare filed counterclaims for declaratory judgment that the asserted patents are invalid and not infringed. Yelp filed an additional counterclaim for declaratory judgment that the asserted patens are unenforceable. The Court subsequently consolidated the actions for at least pre-trial purposes. Groupon filed a motion to transfer the case against it to the U.S. District Court for the Northern District of California, which the Court denied on September 27, 2013.

Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board (“PTAB”) requesting institution of Covered Business Method Review of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the Covered Business Method Reviews at the PTAB occurred during September 2014. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer, which remains pending as of the date of this report.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00034, CBM2013-00046 and CBM2013-00044. In each case, certain claims of each patent were held to be invalid for various reasons. With respect to the ‘516, ‘679, ‘055 and ‘646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the ‘670 patent were held invalid. The Company appealed each of the final decisions to the United States Federal Circuit Court of Appeals. The Company appealed the unpatentability determinations including the decision of invalidity based on anticipation of several claims of the patents by prior art (the Paul reference). The Company also appealed the decision to review its patents under the provisions for CBMR and that the ‘516 patent lacked sufficient written description under § 112 to support the claims. Groupon appealed the Board’s decision that the patents were not valid under § 103 and the determination by the PTAB that a certain reference (the Ratismor reference) was not publically available prior art.

On March 1, 2016, the Federal Circuit overturned the PTAB decision as to insufficient written description but upheld the decision that the Ratismore reference was not publically available prior art. However, the Federal Circuit confirmed the Board’s decision to institute the CBMR process on the basis that Blue Calypso’s patent portfolio qualified as a business method patent which was financial in nature. The Federal Circuit also upheld the decision of invalidity based on anticipation of several claims of the patents by the prior art Paul reference.

The Company has an option to pursue an en banc review of the holding with respect to anticipation by the Paul reference. An en banc review would occur before a panel of eight judges of the Federal Circuit as compared to the recently completed appeals process which utilized three. We also have the option of requesting that the Supreme Court review the Federal Circuit’s decision. These options for appeal must be filed within 30 and 90 days respectively from the date of the March 1, 2016 decision.

The reversal of the written description matter is significant as it re-establishes the ‘516 parent patent issue date of February 2010 as the date that damages begin to accrue. Prior to this reversal the first date of infringement was relegated to the later issue date of the ‘679 patent on April 2012.

The court dockets for each case, including the parties’ briefs are publicly available on the Public Access to Court Electronic Records website, or PACER, www.pacer.gov, which is operated by the Administrative Office of the U.S. Courts.

Other than as noted above, the Company is not a party to any pending legal proceeding nor is its property the subject of any pending legal proceeding that is not in the ordinary course of business or otherwise material to the financial condition of its business. Further, to the knowledge of management, no director or executive officer is party to any action in which any has an interest adverse to us.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock was originally approved for quotation on the OTC Bulletin Board on July 13, 2011 and since August 8, 2012, has been quoted under the trading symbol BCYP. The following table sets forth the high and low bid prices for our common stock for the periods indicated, as reported by the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	High	Low
Fiscal Year 2014		
First Quarter	$ 8.00	$ 6.00
Second Quarter	$ 7.00	$ 4.50
Third Quarter	$ 8.00	$ 4.50
Fourth Quarter	$ 10.00	$ 3.50
Fiscal Year 2015		
First Quarter	$ 8.50	$ 7.09
Second Quarter	$ 7.55	$ 5.50
Third Quarter	$ 8.99	$ 4.01
Fourth Quarter	$ 5.00	$ 1.03

The last reported sales price of our common stock on the OTC Bulletin Board on March 21, 2016, was $2.90 per share. As of March 21, 2016, there were approximately 59 holders of record of our common stock.

Dividends

We have not paid, nor declared, any cash dividends since our inception and do not intend to declare any such dividends in the foreseeable future. Our ability to pay cash dividends is subject to limitations imposed by Delaware law. Under Delaware law, cash dividends may be paid to the extent that a corporation's assets exceed its liabilities and it is able to pay its debts as they become due in the usual course of business.

Securities Authorized for Issuance Under Equity Compensation Plans

On August 31, 2012, the Board adopted, subject to stockholder approval, the Blue Calypso, Inc. 2011 Long-Term Incentive Plan, or the Plan. Our stockholders approved the Plan on September 9, 2011. The Plan is intended to enable us to remain competitive and innovative in our ability to attract, motivate, reward and retain the services of key employees, certain key contractors, and non-employee directors. The Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards which may be granted singly, in combination, or in tandem, and which may be paid in cash or shares of common stock. The Plan is expected to provide flexibility to our compensation methods in order to adapt the compensation of employees, contractors, and non-employee directors to a changing business environment, after giving due consideration to competitive conditions and the impact of federal tax laws. Subject to certain adjustments, the maximum number of shares of our common stock that may be delivered pursuant to awards under the Plan is 700,000 shares.

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As of December 31, 2015, securities issued and securities available for future issuance under the Blue Calypso 2011 Long-Term Incentive Plan were as follows:

	Number of securities issued or to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding and issued options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	444,092	$ 7.48	247,508
Equity compensation plans not approved by security holders	185,536	$ 7.84	—
Total	629,628	$ 7.59	247,508

ITEM 6. SELECTED FINANCIAL DATA.

Since we are a "smaller reporting company," as defined by SEC regulation, we are not required to provide the information required by this Item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements

The statements made herein for fiscal 2015 and beyond represent "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 and are subject to a number of risks and uncertainties. These include, among other risks and uncertainties, whether we will be able to generate sufficient cash flow from our operations or other sources to fund our working capital needs, maintain existing relationships with our lender, successfully introduce and attain market acceptance of any new products, attract and retain qualified personnel both in our existing markets and in new territories in an extremely competitive environment, and potential obsolescence of our technologies.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expe "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as otherwise required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. We qualify all of our forward-looking statements by these cautionary statements.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes thereto that are included in this Annual Report. In addition to historical information, the following discussion and analysis includes forward-looking information that involves risks, uncertainties, and assumptions. Actual results and the timing of events could differ materially from those anticipated by these forward looking statements as a result of many factors.

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Recent Events

General

In September and October 2015, pursuant to a securities purchase agreement, the Company sold an aggregate of 482,500 shares of its common stock together with warrants to purchase an aggregate of 482,500 shares of its common stock for net proceeds, after commissions and other costs, of $1,854,725. The warrants are exercisable at an exercise price of $4.75 for a term of five years.

On July 20, 2015, the Company issued a senior convertible note (the “July 2015 Note”), in the principal amount of $550,000 due one year from the date of issuance. The total net proceeds the Company received from this note were $415,123, net of fees and original interest discount (“OID”) of $50,000.

On December 18, 2015, the Company modified certain terms of the July 2015 Note. Pursuant to the modification, the Company agreed to repay the lender $300,000 in consideration for the extinguishment of $250,000 of the principal amount outstanding as of the December 18, 2015. The Company and the lender also agreed to reduce the guaranteed interest on the note from 10% to 5%, to delay the guaranteed interest start date by thirty days until February 20, 2016 and to delay the first installment payment by thirty days until February 20, 2016. The July 2015 Note was subsequently repaid in full during February 2016.

Litigation

On July 31, 2012, the Company filed suit against Groupon, Inc. in the Eastern District of Texas in Civil Action No. 6:12-cv-00486. The Company filed additional suits against IZEA, Inc. on October 17, 2012, Yelp, Inc. on October 17, 2012, and Foursquare Labs, Inc. on October 31, 2012 in Civil Action Nos. 6:12-cv-786, 6:12-cv-788, 6:12-cv-837, respectively. Each of these cases alleges that the defendants infringe U.S. Patent Nos. 7,664,516 entitled "Method and System for Peer-to-Peer Advertising Between Mobile Communication Devices" and 8,155,679 entitled "System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices." The Company subsequently added U.S. Patent Nos. 8,438,055, 8,452,646, and 8,457,670 to the cases, alleging each defendant infringed the newly added patents. Each of the defendants have answered, denying infringement and claiming that the asserted patents are invalid. Groupon, Yelp, and Foursquare filed counterclaims for declaratory judgment that the asserted patents are invalid and not infringed. Yelp filed an additional counterclaim for declaratory judgment that the asserted patens are unenforceable. The Court subsequently consolidated the actions for at least pre-trial purposes. Groupon filed a motion to transfer the case against it to the U.S. District Court for the Northern District of Illinois, which the Court denied on September 27, 2013. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer. On April 23, 2014, the petition was denied by the Federal Circuit.

Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board (“PTAB”) requesting institution of Covered Business Method Review (“CBMR”) of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the CBMR at the PTAB occurred during September 2014.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00034, CBM2013-00046 and CBM2013-00044. In each case, certain claims of each patent were held to be invalid for various reasons. With respect to the ‘516, ‘679, ‘055 and ‘646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the ‘670 patent were

held invalid. The Company appealed each of the final decisions to the United States Federal Circuit Court of Appeals. The Company appealed the unpatentability determinations including the decision of invalidity based on anticipation of several claims of the patents by prior art (the Paul reference). The Company also appealed the decision to review its patents under the provisions for CBMR and that the '516 patent lacked sufficient written description under § 112 to support the claims. Groupon appealed the Board's decision that the patents were not valid under § 103 and the determination by the PTAB that a certain reference (the Ratismor reference) was not publically available prior art.

On April 2, 2015, the District Court lifted the stay and required the parties to file a joint docket control order. On April 6, 2015, the Court set a Markman Hearing for June 29, 2015, and jury selection for December 14, 2015. On April 15, 2015, the parties filed their joint docket control order. The Court entered its docket control order on April 23, 2015. Due to an apparent *scheduling conflict, the Court rescheduled the Markman Hearing to July 8, 2015.

On April 22, 2015, the Company filed its third amended complaint against all defendants. The defendants timely answered on May 11, 2015. Each of the defendant's answers included a counterclaim for invalidity of the patents. The Company responded to these invalidity contentions on June 1, 2015.

On May 13, 2015, the Company filed a motion for entry of an order focusing patent claims and prior art. That motion requested that the Court narrow the number of claims at issue and the number of prior art references that defendants could use in an attempt to invalidate the Company's patents. On May 27, 2015, the Court held a hearing on the motion and ordered defendants to reduce the number of references in support of any invalidity contention against the patents.

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On June 25, 2015, the Company attended mediation with Yelp in an effort to settle the case. That mediation was recessed to explore settlement options.

On July 8, 2015 the Company attended the Markman Hearing in order to construe the claims of the patents. On July 14, 2015, the Court entered its Memorandum Opinion and Order regarding claim construction. In that Order, the Court analyzed eleven claim terms. The Court agreed with Blue Calypso's proffered construction as to seven terms, chose its own construction as to three terms and agreed with defendants' proffered construction as to only one term. The Court also expressly rejected defendants' argument that the term "testimonial tag" was indefinite.

On July 13, 2015 the Court entered an order severing the non-active claims out of the case and consolidating claims regarding those patents into a separate set of cases. These new cases address the claims which were held invalid by the PTAB and which are now on appeal to the Federal Circuit Court of Appeals.

On July 14, 2015, the Company attended court-ordered mediation with Groupon. The result of that mediation was an impasse.

On July 16, 2015, the Company attended court-ordered mediation with IZEA. The parties reached a settlement.

On July 20, 2015, the Company attended court-ordered mediation with Foursquare. The result of that mediation was an impasse.

On August 17, 2015, the Company entered into a settlement agreement with IZEA, pursuant to which it settled all outstanding litigation with IZEA. Under the Agreement, IZEA has agreed to pay the Company a royalty fee of 4.125% of revenue from IZEA's discontinued legacy platforms SocialSpark, Sponsored Tweets and WeReward. The remaining terms of the settlement are confidential. Legal costs due to our attorneys associated with the IZEA settlement are classified as a settlement payable on our consolidated balance sheet.

On September 21, 2015, the Company entered into a settlement agreement with Yelp, pursuant to which all outstanding litigation with Yelp was settled. Under the agreement, Yelp has agreed to purchase 4,000 KIOSentrix beacons.

On March 1, 2016, the Federal Circuit overturned the PTAB decision as to insufficient written description but upheld the decision that the certain reference (the Ratismore reference) was not publically available prior art. However, the Federal Circuit confirmed the Board's decision to institute the CBMR process on the basis that Blue Calypso's patent portfolio qualified as a business method patent which was financial in nature. The Federal Circuit also upheld the decision of invalidity based on anticipation of several claims of the patents by the prior art Paul reference.

The Company has an option to pursue an en banc review of the holding with respect to anticipation by the Paul reference. An en banc review would occur before a panel of eight judges of the Federal Circuit as compared to the recently completed appeals process which utilized three. We also have the option of requesting that the Supreme Court review the Federal Circuit's decision. These options for appeal must be filed within 30 and 90 days respectively from the date of the March 1,, 2016 decision.

The reversal of the written description matter is significant as it re-establishes the '516 parent patent issue date of February 2010 as the date that damages begin to accrue. Prior to this reversal the first date of infringement was relegated to the later issue date of the '679 patent on April 2012.

The court dockets for each case, including the parties' briefs are publicly available on the Public Access to Court Electronic Records website, or PACER, www.pacer.gov, which is operated by the Administrative Office of the U.S.

Courts.

Other than as noted above, the Company is not a party to any pending legal proceeding nor is its property the subject of any pending legal proceeding that is not in the ordinary course of business or otherwise material to the financial condition of its business. Further, to the knowledge of management, no director or executive officer is party to any action in which any has an interest adverse to us.

Critical Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements are stated in U.S. dollars and include the accounts of Blue Calypso, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the recoverability and useful lives of long-lived assets, the fair value of the Company's stock, stock-based compensation, fair values relating to warrant and other derivative liabilities, debt discounts and the valuation allowance related to deferred tax assets. Actual results may differ from these estimates.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured. Revenue includes fees received from customers for advertising and marketing services. In each case, revenue is recognized when services are performed or licenses are granted to customers.

Revenue from the licensing of the Company's intellectual property and settlements reached from legal enforcement of the Company's patent rights is recognized when the arrangement with the licensee has been signed and the license has been delivered and made effective, provided license fees are fixed or determinable and collectability is reasonably assured. The fair value of licenses achieved by ordinary business negotiations is recognized as revenue.

The amount of consideration received upon any settlement or judgment is allocated to each element of the settlement based on the fair value of each element. Elements related to licensing agreements, royalty revenues, net of contingent legal fees, are recognized as revenue in the consolidated statement of operations. Elements that are not related to license agreements and royalty revenue in nature will be reflected as a separate line item within the other income section of the consolidated statements of operations. Elements provided in either settlement agreements or judgments include: the value of a license, legal release, and interest. When settlements or judgments are achieved at discounts to the fair value of a license, the Company allocates the full settlement or judgment, excluding specifically named elements as mentioned above, to the value of the license agreement or royalty revenue under the residual method. Legal release as part of a settlement agreement is recognized as a separate line item in the consolidated statements of operations when value can be allocated to the legal release. When the Company reaches a settlement with a defendant, no value is allocated to the legal release since the existence of a settlement removes legal standing to bring a claim of infringement and without a legal claim, the legal release has no economic value. The element that is applicable to interest income will be recorded as a separate line item in other income. The Company does not assume future performance obligations in its license arrangements.

The Company also has revenue from information technology consulting services. Revenue is recognized in the periods that satisfactory performance of services is delivered to customers. Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured.

Cost of Revenue

Cost of revenue includes technical service costs directly associated with initiating and supporting a customer's program, technical service costs directly associated with providing IT consulting and legal fees directly related to the settlement of intellectual property claims that result in licensing and royalty revenue.

Intangible Assets

The Company capitalizes certain software development costs as well as purchased software upon achieving technological feasibility of the related products. Software development costs incurred and software purchased prior to achieving technological feasibility are charged to engineering and product development expense as incurred. Commencing upon initial product release, capitalized costs are amortized to cost of software licenses using the straight-line method over the estimated life of the product (which approximates the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product), which is generally up to five years.

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Impairment of Long-Lived Assets

The Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparing the carrying amount of the asset or asset group to the undiscounted cash flows that the asset or asset group is expected to generate. If the undiscounted cash flows of such assets are less than the carrying amount, the impairment to be recognized is measured by the amount by which the carrying amount of the property, if any, exceeds its fair market value. No impairment was deemed to exist as of December 31, 2015 and 2014. The Company re-evaluates the carrying amounts of its amortizable intangibles at least quarterly to identify any triggering events. As described above, if triggering events require us to undertake an impairment review, it is not possible at this time to determine whether it would be necessary to record a charge or if such charge would be material.

Fair Value Measurements

We have adopted ASC Topic 820, “Fair Value Measurements and Disclosures,” which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. ASC 820 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. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Stock-Based Compensation

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on vesting dates and interim financial reporting dates until the service period is complete. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Stock-based compensation expense is recorded by the Company in the same expense classifications in the consolidated statements of operations, as if such amounts were paid in cash.

Results of Operations

Comparison of Year Ended December 31, 2015 and 2014

Net Loss. For the year ended December 31, 2015, we had a net loss of $3,303,150 compared to a net loss of $7,735,464 for the year ended December 31, 2014. The decrease in loss was primarily due to a decrease in general and administrative expense from $6,103,628 during 2014 to $2,318,720 in 2015. General and administrative expense decreased partially as a result of expenses incurred in connection with the departure of our previous Chief Executive Officer at the end of 2014. Pursuant to the agreement, during 2014, the Company incurred $150,000 in expense associated with future agreed upon cash compensation and $1,441,534 of costs in accelerated stock compensation expense related to previous restricted stock and option grants. The Company experienced a further reduction of $1,706,778 in stock based compensation as we did not incur expense associated with restricted stock grants during 2015 as compared to $1,750,225 during 2014. The 2014 expense was primarily associated with our former Chief Executive Officer. Finally, the Company experienced a reduction in officer compensation during 2015 as our founder and previous Chief Technology Officer, assumed the role of Chief Executive Officer while also performing his duties

as Chief Technology Officer.

In addition to the decrease in general and administrative expense, sales and marketing decreased by $96,857 as the Company reduced its salesforce to align with performance. Depreciation and amortization increased by $20,182 in comparison to 2014. Other expense decreased by $578,377. During 2014, the Company incurred a loss on debt settlement upon conversion of the remaining outstanding debt and significant interest on a warrant modification. Interest expense incurred during 2015 is primarily associated with cost from the convertible note issued during July 2015 with an additional 283,387 in expense incurred associated with a terminated offering.

Revenue. Revenue for the year ended December 31, 2015 increased to $1,004,495 as compared to $759,889 for the same period in 2014. 2015 revenue included $390,506 in settlement fees and associated licensing revenue as compared to $23,798 in 2014. Revenue from consulting services was $501,989 and $736,091 during the years ended December 31, 2015 and 2014.

Cost of Revenue. Current year cost of revenue was $664,447 and includes charges directly related to licensing fee and consulting fee revenue with costs increasing as compared to 2014 primarily as a result of legal fees associated with various settlements. Cost of revenue for the year ended December 31, 2014 was $412,225 and substantially consisted of costs related to internal technology professional staff members assigned to the BC Labs team.

Sales and Marketing. For the year ended December 31, 2015, sales and marketing expenses decreased by $96,857 to $385,827 from $482,729 during the same period in 2014 as the Company reduced its salesforce to align with performance.

General and Administrative. For the year ended December 31, 2015, general and administrative expense decreased partially as a result of expenses incurred in connection with the departure of our previous Chief Executive Officer at the end of 2014. Pursuant to the agreement, during 2014, the Company incurred $150,000 in expense associated with future agreed upon cash compensation and $1,441,534 of costs in accelerated stock compensation expense related to previous restricted stock and option grants. The Company experienced a further reduction of $1,706,778 in stock based compensation as we did not incur expense associated with restricted stock grants during 2015 as compared to $1,750,225 during 2014. The 2014 expense was primarily associated with our former Chief Executive Officer. Finally, the Company experienced a reduction in officer compensation during 2015 as our founder and previous Chief Technology Officer, assumed the role of Chief Executive Officer while also performing his duties as Chief Technology Officer.

Depreciation and Amortization. Depreciation and amortization expenses, increased from $344,128 for the year ended December 31, 2014 to $364,310 for the year ended December 31, 2015 as the Company invested $381,168 in capitalized software as compared to $149,131 during 2014.

Interest Expense. Interest expense was $740,756 for the year ended December 31, 2014 as compared to $379,776 for the year ended 2015. Interest expense incurred during 2014 related to the Company's long-term debt obligations at various interest rates ranging from 8% to 10% and the amortization of debt discount. An additional $460,949 was incurred as a result of a warrant modification. During 2015, the Company incurred interest expense primarily associated with cost from the convertible note issued during July 2015.

Cash Flows

Cash used in operating activities during the year ended December 31, 2015 was $2,004,893, as compared to $2,367,655 for the year ended December 31, 2014. Overall, the Company reduced cash utilized by operations primary through employee compensation reductions.

Cash used in investing activities during the year ended December 31, 2015 was $387,674, as compared to $150,312 for the year ended December 31, 2014. The increase in cash used in investing activities resulted from continuing to expand and enhance our software offerings and core platform.

During the year ended December 31, 2015, cash provided by financing was $2,019,848 as compared to $2,326,286 for the same period in 2014. In the current year, the Company secured net proceeds of $1,854,725 from the sale of common stock. In addition, the Company secured $415,123 from the issuance of $550,000 in convertible notes. A principal payment on such convertible notes of $250,000 was made during December 2015. In the prior year, the Company secured $1,330,000 from the sale of common stock. In addition, $1,024,558 and $21,728 in proceeds were generated from the exercise of warrants and options, respectively. These monies were secured to address the cash requirements of the business as the Company continues to enhance its service offerings. These proceeds were offset by a $50,000 debt repayment.

Going Concern

Our independent registered public accounting firm, in their report accompanying our consolidated financial statements for the year ended December 31, 2015, expressed substantial doubt about our ability to continue as a going concern due to our recurring losses from operations, negative cash flows from operating activities and our accumulated deficit.

Our ability to continue as a going concern is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies, reduce expenditures, dispose of selective assets, and ultimately, generate additional revenue. The going concern opinion may also limit our ability to access certain types of financing, prevent us from obtaining financing on acceptable terms, and limit our ability to obtain new
business due to potential customers' concern about our ability to deliver products or services. We will likely need to raise capital to implement our project and stay in business.

Liquidity and Capital Resources

We are an early stage company and have incurred cumulative losses of $35,470,384 since beginning operations on September 11, 2009. At December 31, 2015, we had a cash balance of $730,482 and favorable working capital of $441,014.

In September and October 2015, pursuant to a securities purchase agreement, the Company sold an aggregate of 482,500 shares of its common stock together with warrants to purchase an aggregate of 482,500 shares of its common stock for net proceeds, after commissions and other costs, of $1,854,725. The warrants are exercisable at an exercise price of $4.75 for a term of five years.

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On July 20, 2015, the Company issued a senior convertible note (the “July 2015 Note”), in the principal amount of $550,000 due one year from the date of issuance. The total net proceeds the Company received from this note were $415,123, net of fees and original interest discount (“OID”) of $50,000.

On December 18, 2015, the Company modified certain terms of the July 2015 Note. Pursuant to the modification, the Company agreed to repay $300,000 in consideration for the extinguishment of $250,000 of the principal amount then outstanding. The Company and the lender also agreed to reduce the guaranteed interest on the note from 10% to 5%, to delay the guaranteed interest start date by thirty days until February 20, 2016 and to delay the first installment payment by thirty days until February 20, 2016. The July 2015 was fully repaid during February 2016.

The Company continually assesses its capital needs based on current and anticipated future operating results and will be required to raise additional capital during 2016.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Since we are a “smaller reporting company,” as defined by SEC regulation, we are not required to provide the information required by this Item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The required financial statements are included following the signature page of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this Annual Report on Form 10-K. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Our Chief

Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective.

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Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined In Exchange Act Rule 13a-15(f). The term "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the registrant's principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant's board of directors, management and other personnel,

to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant's assets that could have a material effect on the financial statements.

Our internal control system is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. In addition, because of changes in conditions, the effectiveness of internal control may vary over time.

As previously disclosed in Item 9A of our Form 10-K for the year ended December 31, 2013, management concluded that there were material weaknesses in internal control over financial reporting related to insufficient experience to account for and disclose complex transactions under US GAAP and a limited segregation of duties within our accounting and financial reporting functions due to the small number of employees assigned to positions that involve the processing of financial information.

During the year ended December 31, 2014, remedial actions were implemented to address these weaknesses. We have devoted significant effort and resources to remediation and improvement of our internal control over financial reporting. While we had processes in place to identify and apply developments in accounting standards, we enhanced these processes to better evaluate our research of the nuances of complex accounting standards and engaged a third party financial reporting consultant to assist the Company in its financial reporting compliance in the latter part of 2013. Our third party consultant is a technical accounting professional, who assists us in the interpretation and application of new and complex accounting guidance. In order to address the segregation of duties item, all transactions are recorded by a third party accounting firm and approved by management. In addition to the CFO, the consultant also reviews the quarterly and annual financial statements. Management will continue to review and make necessary changes to the overall design of our internal control environment, if needed.

As of December 31, 2015, management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) ("COSO") and have concluded our controls are effective.

The Company is a non-accelerated filer and is not subject to Section 404(b) of the Sarbanes Oxley Act. Accordingly, this Annual Report does not contain an attestation report of our independent registered public accounting firm regarding internal control over financial reporting, since the rules for smaller reporting companies provide for this exemption.

(b) Changes in internal control over financial reporting. There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2015, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Executive Officers and Directors

Set forth below is certain information regarding our current executive officers and directors. Each of the directors listed below was appointed to our board of directors to serve until our next annual meeting of stockholders or until his successor is elected and qualified. All directors hold office for one-year terms until the election and qualification of their successors.

Name	Age	Position with the Company	Director/Officer Since
Andrew Levi	49	Chief Executive Officer, Chairman of the Board	2011
Melisse Shaban	55	Director	2015
D. Jonathan Merriman	55	Director	2014
Charles Thomas	49	Director	2012
Dennis Schmal	68	Director	2015
Chris Fameree	34	Chief Financial Officer	2014

Biographical Information

Andrew Levi, Chief Executive Officer, Director

Mr. Levi founded Blue Calypso Holdings, Inc. in September 2009. In October 2014, Andrew was named Co-Chief Executive Officer and appointed as sole Chief Executive Officer during December 2014. He previously served as our Chief Technology Officer from June 2012 to October 2014 and was the Company's Chairman and Chief Executive Officer prior to that. From November 1991 until June 2012, Mr. Levi served as the founder, president and chief executive officer of Aztec Systems, Inc., a Dallas-based provider of mid-market ERP, managed services and related technology solutions. Mr. Levi has been named to SmartPartner Magazine's list of "50 Smartest People" in the technology industry and to D Magazine's "Top Entrepreneurs under 40." Mr. Levi has been involved in numerous business and association ventures in the technology industry such as Boardroom Software, Inc., Critical Devices, Inc., Aztec Business Solutions, L.L.P., REES Associates, the board of the International Association of Microsoft Certified Partners (IAMCP) and the Information Technology Solution Provider Alliance (ITSPA). Mr. Levi holds a Bachelor of Science degree in finance from Florida State University in addition to numerous technical certifications and ten United States patents. His achievements, experience and knowledge led the board to believe that he is qualified to serve on the board of directors.

Melisse Shaban, Director

Ms. Shaban is a strategist and marketer of innovative retail concepts in the health and beauty industry. With more than 25 years of experience in consumer applications, she has demonstrated expertise in skin care, hair care, retail operations, and molding medical service concepts into viable consumer brands. In January 2005 Ms. Shaban established Chrysallis, a full-service management team dedicated to the nurturing and development of niche retail brands to position them for future growth and success. As Founding Partner and head of Chrysallis, Melisse is charged with identifying unique concepts for investment, development, and growth, as well as leading growth strategies for her clients' brand portfolios. In this role to date, she has overseen investments in companies including StriVectin, the

largest independent prestige anti-aging skin care brand in America; Frederic Fekkai, a leading prestige hair care and salon brand; and Niadyne, Inc., a company dedicated to the discovery and development of topical products for the treatment and prevention of sun damage to the skin. Under her leadership, the Fekkai Company achieved year-on-year double-digit growth, which led to the acquisition of Fekkai by the Procter & Gamble Company in May 2008. Prior to founding Chrysallis, Melisse served as Head of Consumer Genomics for Genaissance Pharmaceuticals, with primary responsibility for identifying consumer applications for genetic discoveries, leading to a successful joint venture with Sciona, Inc., a genetic science firm based in the U.K. Her achievements, experience and knowledge led the board to believe that she is qualified to serve on the board of directors.

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D. Jonathan Merriman, Director

Mr. Merriman was appointed to our board in December 2014. As co-chairman and CEO of Merriman Holdings, Inc., Jon Merriman is responsible for the overall strategic direction of the firm as well as working closely with the firm's clients. He actively advises fast-growing public and private companies on complex capital market and financing issues and works directly with growth-oriented investors. With more than 25 years of experience in the investment banking and brokerage business, he brings deep experience in relationship management, corporate turnarounds and building growth companies. His extensive institutional and personal network and his trading experience give him a unique perspective when working with investment banking clients, as well as institutional investors. Prior to forming Merriman Capital, Merriman was Managing Director and the head of the Wells Fargo Securities equity group, formerly First Security Van Kasper, and served on FSVK's Board of Directors. Merriman was subsequently appointed Chairman and CEO of publicly traded telecom company Ratexchange, which he restructured into Merriman Curhan Ford, now known as Merriman Capital. He has served on several private and public company boards over the course of his career and has been a frequent guest on Bloomberg TV, as well as CNBC's show "Fast Money," and has been a regular contributor to financial publications such as The Wall Street Journal, Barron's and The Daily Deal. His achievements, experience and knowledge led the board to believe that he is qualified to serve on the board of directors.

Charles Thomas, Director

Mr. Thomas was appointed to our board in June 2012. He is the senior vice president of sales for Centro, a media logistics company based in Chicago, Illinois. At Centro, Mr. Thomas leads the company’s sales efforts and oversees the strategic direction of the sales force. Mr. Thomas was associated with Time Inc. from 1996 through 1998. Mr. Thomas became the company’s first online ad sales person and was promoted to advertising sales director and VP of online sales and marketing. During his tenure at Time Inc., he also contributed to the industry as a founding member of the Internet Advertising Bureau (IAB). Mr. Thomas then joined Broadcast.com as the VP of advertising sales, which was later purchased by Yahoo. He remained Yahoo’s central region sales VP until 2007 and was later promoted to the VP of display sales strategy. When Mr. Thomas left Yahoo, he founded Step Ahead Strategies (SAS), a sales and marketing consulting firm. Mr. Thomas graduated from Ohio Wesleyan University in 1980. His achievements, experience and knowledge led the board to believe that he is qualified to serve on the board of directors.

Dennis Schmal, Director

Mr. Schmal was appointed to our board in May 2015. Mr. Schmal is a senior business advisor who spent nearly three decades with a global accounting firm consulting with hundreds of corporate clients. During his public accounting career, Mr. Schmal specialized in working with companies in the financial services sector, including the commercial banking, securities/investment banking and asset management industries. His consulting projects covered many facets of business, including operations, systems, capital planning, strategic planning, mergers & acquisitions executive recruitment and initial and secondary public offerings. Over the last sixteen years, he has served as a board director for fourteen corporate entities, both large and small, most of whom were public entities, and who were concentrated primarily in the technology and financial services industry sectors. Dennis’s corporate board experience is extensive. He has served as the Audit Committee Chairperson and “Audit Committee Finance Expert” for seven public companies and has similar experience serving on compensation, technology, merger & acquisition, nominating and corporate governance board committees. Mr. Schmal is a member of the National Association of Corporate Directors and has attended many educational local chapter presentations as well as the annual corporate governance conventions. Dennis has earned the NACD certificate of director education. He has also attended several times the Directors College at Stanford Law School. Dennis is an associate member of the Committee on Mergers & Acquisitions of the Business Law Section of the American Bar Association. Dennis has been inducted in the Manchester’s Who’s Who Executive and Professional registry. His achievements, experience and knowledge led the board to believe that he is qualified to

serve on the board of directors.

Chris Fameree, Chief Financial Officer

Mr. Fameree was appointed our Chief Financial Officer during August 2014. Chris is a founding member of Assure Professional (Assure) with 10+ years of combined public accounting and industry experience. In his time in public accounting, Chris has lead and participated in numerous engagements including due diligence engagements, financial statement audits, SSAE 16 (formerly known as SAS 70) engagements and other advisory projects. In addition, Chris has actively lead and participated in numerous outsourced accounting and fractional CFO and Controller engagements which involve preparing accounting and financial reporting while providing insight into Companies' operational and financial results. Prior to founding Assure, Chris was a Senior Manager in Cherry Bekaert's Transaction Advisory Services Group and Audit Group. During this time, Chris participated in numerous business combinations and due diligence assignments. These transactions ranged from $10 million to over $100 million in value. Prior to joining CB&H, Chris worked at PricewaterhouseCoopers, where he served lead roles on audit engagements from international Fortune 500 companies to closely held private companies.

Independent Directors

Our board of directors has determined that each of Messrs. Melisse Shaban, Charles Thomas and Dennis Schmal is independent within the meaning of applicable listing rules of the Nasdaq Stock Market and the rules and regulations promulgated by the Securities and Exchange Commission. We anticipate that we will add additional independent directors in the future.

Committees of the Board of Directors

Audit Committee. We established an audit committee of the board of directors on October 25, 2011. The audit committee consists of Messrs. Schmal and Thomas, each of whom our board has determined to be financially literate and qualify as an independent director under Section 5605(a)(2) of the rules of the Nasdaq Stock Market. In addition, Mr. Schmal qualifies as a financial expert, as defined in Item 407(d)(5)(ii) of Regulation S-K. The function of the audit committee is to oversee our accounting and financial reporting and the audits of our financial statements. The audit committee assists the board in monitoring the integrity of the financial statements, the qualifications, independence and appointment of the independent registered public accounting firm, the performance of our internal audit function and independent auditors, our systems of internal control and our compliance with legal and regulatory requirements. Copies of our audit committee charter can be obtained free of charge from our web site, www.bluecalypso.com.

Compensation Committee. We established a compensation committee of the board of directors October 25, 2011. The compensation committee consists of Messrs. Thomas and Merriman, each of whom our board has determined qualifies as an independent director under Section 5605(a)(2) of the rules of the Nasdaq Stock Market, as an "outside director" for purposes of Section 162(m) of the Internal Revenue Code and as a "non-employee director" for purposes of Section 16b-3 under the Exchange Act. The function of the compensation committee is to assist the board in overseeing our management compensation policies and practices, including (i) determining and approving the compensation of the our chief executive officer and other executive officers, (ii) reviewing and approving management incentive compensation policies and programs, and exercising discretion in the administration of such programs, (iii) reviewing and approving the form and amount of director compensation and (iv) reviewing and approving equity compensation programs for employees and exercising discretion in the administration of such programs. Copies of our compensation committee charter can be obtained free of charge from our web site, www.bluecalypso.com.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the "Act") requires the Company's directors, executive officers, and persons who beneficially own more than 10 percent of our Common Stock, to file reports of ownership and changes in ownership with the SEC. Directors, executive officers, and greater than 10 percent stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms received by us or filed with the SEC, we believe that during the year ended December 31, 2015, all persons subject to the reporting requirements of Section 16(a) with respect to the Company filed the required reports on a timely basis, except Mr. Ogle, Mr. Levi, and Ms. Shaban failed to timely file Form 4s and Mr. Schmal failed to timely file a Form 3 and Form 4.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics that applies to directors, officers and other employees of the Company and its subsidiaries, including our principal executive officer, principal financial officer and principal

accounting officer. Copies of the code can be obtained free of charge from our web site, www.bluecalypso.com. We intend to post any amendments to; or waivers from, our code of ethics on our web site.

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ITEM 11. EXECUTIVE COMPENSATION

2015 and 2014 Summary Compensation Table

The following table sets forth the compensation earned by the Company's principal executive officer, and each of the Company's highly compensated executive officers other than the principal executive officer whose compensation exceeded $100,000 (collectively, the "Named Executive Officers"), during the years ended December 31, 2015 and 2014.

Name and Position	Year	Salary($)	Bonus($)	Options	Other Compensation	Total ($)
Andrew Levi	2015	165,625		260,944		426,569
Chairman and Chief Executive Officer,	2014	240,625				240,625
Former Chief Technology Officer (1)						
Chris Fameree	2015	84,000		32,314		116,314
Chief Financial Officer	2014	38,500				

5.600% Notes due 2019	500	(1)	3	502
2.950% Notes due 2022	750	(4)	(24)	722
3.625% Notes due 2025	500	(3)	(13)	484
3.300% Notes due 2027	800	(9)	(43)	748
Subtotal - Long-term debt	2,550	(17)	(77)	2,456
Total long-term debt and other borrowings	$ 2,647	$(17)	$(77)	$2,553

September 30, 2017	Face Value	Unamortized Discounts and Debt Issuance Costs	Fair Value Adjustment (1)	Net Carrying Value
Other borrowings:				
Securities sold under agreements to repurchase	$97	$ —	$ —	$ 97
Long-term debt:				
Senior Notes:				
5.600% Notes due 2019	500	(1)	15	514
2.950% Notes due 2022	750	(5)	—	745
3.625% Notes due 2025	500	(3)	11	508
3.300% Notes due 2027	800	(9)	(3)	788
Subtotal - Long-term debt	2,550	(18)	23	2,555
Total long-term debt and other borrowings	$2,647	$ (18)	$ 23	$ 2,652

(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.

Lines of Credit – TD Ameritrade Clearing, Inc. ("TDAC"), a clearing broker-dealer subsidiary of the Company, utilizes secured uncommitted lines of credit for short-term liquidity. Under the secured uncommitted lines, TDAC borrows on a demand basis from three unaffiliated banks and pledges client margin securities as collateral. Advances under the secured uncommitted lines are dependent on having acceptable collateral as determined by each secured uncommitted credit agreement. At June 30, 2018, borrowings are limited to $200 million under one of the secured uncommitted credit agreements and the terms of the other two secured uncommitted credit agreements do not specify borrowing

limits. The availability of TDAC's secured uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. In addition, the Parent has a secured uncommitted line of credit agreement with one unaffiliated bank, which limits its borrowings up to $100 million on a demand basis. There were no borrowings outstanding under the secured uncommitted lines of credit as of June 30, 2018.

Securities Sold Under Agreements to Repurchase (repurchase agreements) – The Company's repurchase agreements generally mature between 30 and 90 days following the transaction date and are accounted for as secured borrowings. Under repurchase agreements, the Company receives cash from the counterparty and provides U.S. government debt securities as collateral. The remaining contractual maturity of the repurchase agreements with outstanding balances as of June 30, 2018 and September 30, 2017, was less than 30 days and 90 days, respectively. The weighted average interest rate on the balances outstanding as of June 30, 2018 and September 30, 2017 was 2.15% and 1.25%, respectively. See "General Contingencies" in Note 10 for a discussion of the potential risks associated with repurchase agreements and how the Company mitigates those risks.

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, the Company has entered into fixed-for-variable interest rate swaps on each of the Senior Notes. Each fixed-for-variable interest rate swap has a notional amount and a maturity date matching the aggregate principal amount and maturity date, respectively, for each of the respective Senior Notes.

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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) 2.3745% for the swap on the 2019 Notes, (b) 0.9486% for the swap on the 2022 Notes, (c) 1.1022% for the swap on the 2025 Notes and (d) 1.0340% for the swaps on the 2027 Notes. As of June 30, 2018, the weighted average interest rate on the aggregate principal balance of the Senior Notes was 3.59%.
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 interest rate swaps designated as fair value hedges and the hedged fixed-rate debt for the periods indicated (dollars in millions):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Gain (loss) on fair value of interest rate swaps	$(21)	$ 4	$(100)	$(49)
Gain (loss) on fair value of hedged fixed-rate debt	21	(4)	100	49
Net gain (loss) recorded in interest on borrowings	$—	$ —	$—	$—

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):

	June 30, 2018	September 30, 2017
Pay-variable interest rate swaps designated as fair value hedges:		
Other assets	$ 3	$ 26
Accounts payable and other liabilities	$ (80)	$ (3)

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 (including accrued interest). As of June 30, 2018 and September 30, 2017, the pay-variable interest rate swap counterparties had pledged $4 million and $40 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 other liabilities on the Condensed Consolidated Balance Sheets. As of June 30, 2018 and September 30, 2017, the Company had pledged $78 million and $1 million of collateral, respectively, to the pay-variable 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 receivables on the Condensed Consolidated Balance Sheets.
TD Ameritrade Holding Corporation Senior Revolving Credit Facilities – On April 21, 2017, the Parent entered into a credit agreement consisting of a senior unsecured committed revolving credit facility in the aggregate principal amount of $300 million (the "Parent Revolving Facility"). The maturity date of the Parent Revolving Facility is April 21, 2022.
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 Eurodollar loans") or (b) (i) the highest of (x) the prime rate, (y) the federal funds effective rate (or, if the federal funds effective rate is unavailable, the overnight bank funding rate) plus 0.50% or (z) the eurodollar rate assuming a one-month interest period plus 1.00%, plus (ii) an interest rate margin ("ABR loans"). The interest rate margin ranges from 0.875% to 1.50% for Parent Eurodollar loans and from 0% to 0.50% for ABR loans, determined by reference to the Company's public debt ratings. The Parent is

obligated to pay a commitment fee ranging from 0.08% to 0.20% on any unused amount of the Parent Revolving Facility, determined by reference to the Company's public debt ratings. There were no borrowings outstanding under the Parent Revolving Facility as of June 30, 2018. As of June 30, 2018, the interest rate margin would have been 1.125% for Parent Eurodollar loans and 0.125% for ABR loans, and the commitment fee was 0.125%, each determined by reference to the Company's public debt ratings.

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

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consolidated leverage ratio covenant and a minimum consolidated interest coverage ratio covenant, and the Company's broker-dealer and FCM/FDM subsidiaries are required to maintain compliance with a minimum regulatory net capital covenant.

In addition to the Parent Revolving Facility, the Parent entered into a credit agreement on February 16, 2018, consisting of a senior unsecured committed revolving credit facility in the aggregate principal amount of $500 million, with substantially the same terms as the Parent Revolving Facility. The February 16, 2018 revolving credit facility matured on May 17, 2018.

TD Ameritrade Clearing, Inc. Senior Revolving Credit Facilities – TDAC currently maintains two senior unsecured committed revolving credit facilities with an aggregate principal amount of $1.45 billion, consisting of a $600 million (the "$600 Million Revolving Facility") and an $850 million (the "$850 Million Revolving Facility") senior revolving facility (together, the "TDAC Revolving Facilities") entered into on April 21, 2017 and May17, 2018, respectively. The maturity dates of the $600 Million Revolving Facility and the $850 Million Revolving Facility are April 21, 2022 and May 16, 2019, respectively.

The applicable interest rate under each of the TDAC Revolving Facilities is calculated as a per annum rate equal to, at the option of TDAC, (a) LIBOR plus an interest rate margin ("TDAC Eurodollar loans") or (b) the federal funds effective rate plus an interest rate margin ("Federal Funds Rate loans"). The interest rate margin ranges from 0.75% to 1.25% for both TDAC Eurodollar loans and Federal Funds Rate loans, determined by reference to the Company's public debt ratings. TDAC is obligated to pay commitment fees ranging from 0.07% to 0.175% and from 0.06% to 0.125% on any unused amounts of the $600 Million Revolving Facility and $850 Million Revolving Facility, respectively, each determined by reference to the Company's public debt ratings. There were no borrowings outstanding under the TDAC Revolving Facilities as of June 30, 2018. As of June 30, 2018, the interest rate margin under the TDAC Revolving Facilities would have been 1.00% for both TDAC Eurodollar loans and Federal Funds Rate loans, determined by reference to the Company's public debt ratings. As of June 30, 2018, the commitment fees under the $600 Million Revolving Facility and the $850 Million Revolving Facility were 0.10% and 0.08%, respectively, each determined by reference to the Company's public debt ratings.

The TDAC Revolving Facilities contain 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, which may change from time to time.

9. 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. TDAC and Scottrade, Inc., the Company's clearing broker-dealer subsidiaries, and TD Ameritrade, Inc., an introducing broker-dealer subsidiary of the Company, 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. TD Ameritrade, Inc. and Scottrade, Inc. are required to maintain minimum net capital of the greater of $250,000 or 2% of aggregate debit balances. In addition, 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 net capital of less than (a) 5% of aggregate debit balances or (b) 120% of its minimum dollar requirement.

TD Ameritrade Futures & Forex LLC ("TDAFF"), the Company's FCM and FDM subsidiary registered with the CFTC, is subject to CFTC Regulations 1.17 and 5.7 under the Commodity Exchange Act, administered by the CFTC and the National Futures Association ("NFA"). As an FCM, TDAFF is required to maintain minimum adjusted net capital under CFTC Regulation 1.17 of the greater of (a) $1.0 million or (b) its futures risk-based capital requirement, equal to 8% of the total risk margin requirement for all futures positions carried by the FCM in client and nonclient

accounts. As an FDM, TDAFF is also subject to the net capital requirements under CFTC Regulation 5.7, which requires TDAFF to maintain minimum adjusted net capital of the greater of (a) any amount required under CFTC Regulation 1.17 as described above or (b) $20.0 million plus 5% of all foreign exchange liabilities owed to forex clients in excess of $10.0 million. In addition, an FCM and FDM must provide notice to the CFTC if its adjusted net capital amounts to less than (a) 110% of its risk-based capital requirement under CFTC Regulation 1.17, (b) 150% of its $1.0 million minimum dollar requirement, or (c) 110% of $20.0 million plus 5% of all foreign exchange liabilities owed to forex clients in excess of $10.0 million.

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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	Ratio of Net Capital to Aggregate Debit Balances
June 30, 2018	$2,527	$ 513	$ 2,014	9.85 %
September 30, 2017	$1,595	$ 340	$ 1,255	9.39 %

TD Ameritrade, Inc.

Date	Net Capital	Required Net Capital (Minimum Dollar Requirement)	Net Capital in Excess of Required Net Capital
June 30, 2018	$ 193	$ 0.25	$ 193
September 30, 2017	$ 155	$ 0.25	$ 155

Scottrade, Inc.

Date	Net Capital	Required Net Capital (Minimum Dollar Requirement or 2% of Aggregate Debit Balances)	Net Capital in Excess of Required Net Capital	Ratio of Net Capital to Aggregate Debit Balances
June 30, 2018 [(1)]	$ 46	$ 0.25	$ 45	N/A
September 30, 2017	$ 348	$ 70	$ 278	9.99 %

(1) On February 26, 2018, Scottrade, Inc. transferred substantially all of its broker-dealer business, including its clearing operations, to other subsidiaries of the Company.

Adjusted net capital and adjusted net capital requirements for the Company's FCM and FDM subsidiary are summarized in the following table (dollars in millions):

TD Ameritrade Futures & Forex LLC

Date	Adjusted Net Capital	Required Adjusted Net Capital ($20 Million Plus 5% of All Foreign Exchange Liabilities Owed to Forex Clients in Excess of	Adjusted Net Capital in Excess of Required Adjusted Net Capital

		$10 Million)	
June 30, 2018	$ 124	$ 23	$ 101
September 30, 2017	$ 77	$ 22	$ 55

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. TDATC's Tier 1 capital was $38 million and $32 million as of June 30, 2018 and September 30, 2017, respectively, which exceeded the required Tier 1 capital by $18 million and $13 million, respectively.

10. Commitments and Contingencies

Legal and Regulatory Matters

Order Routing Matters — Five putative class action complaints were filed between August and October 2014 regarding TD Ameritrade, Inc.'s routing of client orders and one putative class action was filed in December 2014 regarding Scottrade, Inc.'s routing of client orders. The cases against TD Ameritrade were filed in, or transferred to, the U.S. District Court for the District of Nebraska: Jay Zola et al. v. TD Ameritrade, Inc., et al., Case No. 8:14CV288; Tyler Verdieck v. TD Ameritrade, Inc., Case No. 8:14CV289; Bruce Lerner v. TD Ameritrade, Inc., Case No. 8:14CV325; Michael Sarbacker v. TD Ameritrade Holding Corporation, et al., Case No. 8:14CV341; and Gerald Klein v. TD Ameritrade Holding Corporation, et al., Case No. 8:14CV396.

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The case against Scottrade, Inc. was transferred to the U.S. District Court for the Eastern District of Missouri: Nicholas Lewis v. Scottrade, Inc., Case No. 4:15CV01255. The complaints in Zola, Klein and Sarbacker allege that the defendants failed to provide clients with best execution and routed orders to the market venue that paid the most for its order flow. The complaints in Verdieck, Lerner and Lewis allege that the defendant routed its clients' non-marketable limit orders to the venue paying the highest rates of maker rebates, and that clients did not receive best execution on these kinds of orders. The complaints variously include claims of breach of contract, breach of fiduciary duty, breach of the duty of best execution, fraud, negligent misrepresentation, violations of Section 10(b) and 20 of the Exchange Act and SEC Rule 10b-5, violation of Nebraska's Consumer Protection Act, violation of Nebraska's Uniform Deceptive Trade Practices Act, violation of the Missouri Merchandising Practices Act, aiding and abetting, unjust enrichment and declaratory judgment. The complaints seek various kinds of relief including damages, restitution, disgorgement, injunctive relief, equitable relief and other relief. The Company, including Scottrade, Inc., moved to dismiss the putative class action complaints. On March 23, 2016, the U.S. District Court in Nebraska entered an order dismissing all of the state law claims in the five actions against TD Ameritrade, denying the motion to dismiss the federal securities claims in the Klein case, and permitting the plaintiffs in the other four actions to amend their complaints to assert a federal securities claim. On August 29, 2016, the U.S. District Court in Missouri entered an order dismissing without prejudice all of the state law claims against Scottrade, Inc. None of the plaintiffs in the actions filed an amended complaint. The plaintiffs in the Zola, Sarbacker, Verdieck and Lewis cases filed appeals. The plaintiff in the Lerner case did not file an appeal and that case is considered closed. On January 9, 2018, the Court of Appeals, 8th Circuit, affirmed the District Court's dismissal of the Lewis case and on May 10, 2018, affirmed the District Court's dismissal of the Zola, Sarbacker and Verdieck cases. On July 12, 2018, the Magistrate Judge in the Klein case issued findings and a recommendation that plaintiffs' motion for class certification be denied. Plaintiff has filed objections to the Magistrate Judge's findings and recommendation. The Company intends to vigorously defend against these lawsuits and is unable to predict the outcome or the timing of the ultimate resolution of these lawsuits, or the potential losses, if any, that may result.
Certain regulatory authorities are conducting examinations and investigations regarding the routing of client orders. TD Ameritrade, Inc., TDAC and Scottrade, Inc. have received requests for documents and information from the regulatory authorities. TD Ameritrade, Inc., TDAC and Scottrade, Inc. are cooperating with the requests.
Lawsuit regarding Scottrade Acquisition — On April 6, 2017, an alleged stockholder of the Company filed a stockholder derivative complaint regarding the acquisition of Scottrade by the Company and the acquisition of Scottrade Bank by TD. The suit filed in the Delaware Chancery Court is captioned Vero Beach Police Officers' Retirement Fund, derivatively on behalf of nominal defendant TD Ameritrade Holding Corp. v. Larry Bettino et al., C.A. No. 2017-0264-JRS. On December 18, 2017, the plaintiff filed an amended complaint. The suit names as defendants TD and the members of the Company's board of directors. It also names the Company as a nominal defendant. The complaint alleges that the Company's acquisition of Scottrade and TD's acquisition of Scottrade Bank were unfair from the perspective of the Company because TD Bank, N.A. acquired Scottrade Bank for an allegedly low price, which in turn caused the Company to pay an allegedly high price to acquire Scottrade. The complaint claims that the Company's directors and TD, as the Company's alleged controlling stockholder, breached their fiduciary duties to the Company and its stockholders, and that TD aided and abetted the Company directors' breach of fiduciary duty and was unjustly enriched. The complaint seeks a declaration that demand on the Company's board is excused as futile and seeks corporate governance reforms, damages, interest and fees. The parties have reached an agreement in principle for the settlement of this action, subject to entry into a stipulation of settlement to be submitted to the court for approval. There can be no assurance that the proposed settlement will be finalized and approved by the court. If the proposed settlement is not finalized or approved by the court, the Company will be unable to predict the outcome or the timing of the ultimate resolution of this lawsuit, or the potential losses, if any, that may result.
Aequitas Securities Litigation — An amended putative class action complaint was filed in the U.S. District Court for the District of Oregon in Lawrence Ciuffitelli et al. v. Deloitte & Touche LLP, EisnerAmper LLP, Sidley Austin LLP, Tonkon Torp LLP, TD Ameritrade, Inc., and Integrity Bank & Trust, Case No. 3:16CV580, on May 19, 2016. A second amended putative class action complaint was filed on September 8, 2017, in which Duff & Phelps was added

as a defendant. The putative class includes all persons who purchased securities of Aequitas Commercial Finance, LLC and its affiliates on or after June 9, 2010. Other groups of plaintiffs have filed five non-class action lawsuits in Oregon Circuit Court, Multnomah County, against these and other defendants: Walter Wurster, et al. v. Deloitte & Touche et al., Case No. 16CV25920 (filed Aug. 11, 2016), Kenneth Pommier, et al. v. Deloitte & Touche et al., Case No. 16CV36439 (filed Nov. 3, 2016), Charles Ramsdell, et al. v. Deloitte & Touche et al., Case No. 16CV40659 (filed Dec. 2, 2016), Charles Layton, et al. v. Deloitte & Touche et al., Case No. 17CV42915 (filed October 2, 2017) and John Cavanagh, et al. v. Deloitte & Touche et al., Case No. 18CV09052 (filed March 7, 2018). FINRA arbitrations have also been filed against TD Ameritrade, Inc. The claims in these actions include allegations that the sales of Aequitas securities were unlawful, the defendants participated and materially aided in such sales in violation of the Oregon securities laws, and material misstatements and omissions were made. While the factual allegations differ in various respects among the cases, plaintiffs' allegations include assertions that: TD Ameritrade customers purchased more than $140 million of Aequitas securities; TD Ameritrade served as custodian for Aequitas securities; recommended and referred investors to financial advisors as part of its advisor referral program for the purpose of purchasing Aequitas securities; participated in marketing the securities; recommended the securities; provided assurances to investors about the safety of the securities; and developed a market for the securities. In the

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Ciuffitelli putative class action, plaintiffs allege that more than 1,500 investors were owed more than $600 million on the Aequitas securities they purchased. On August 1, 2018, the Magistrate Judge in that case issued findings and a recommendation that defendants' motions to dismiss the pending complaint be denied with limited exceptions not applicable to the Company. Discovery has commenced. In the five non-class action lawsuits, approximately 200 named plaintiffs collectively allege a total of approximately $125 million in losses plus other damages. In the Wurster and Pommier cases, the Court, on TD Ameritrade's motion, dismissed the claims by those plaintiffs who were TD Ameritrade customers, in favor of arbitration. Discovery is ongoing. A stay in the Ramsdell and Layton cases has been lifted. On February 23, 2018, the Court in the Wurster and Pommier cases denied TD Ameritrade's motion to dismiss the claims by the plaintiffs who were not TD Ameritrade customers. On July 17, 2018, plaintiffs in the Ciuffitelli case filed a motion for preliminary approval of an $18.5 million settlement with the defendant Tonkon Torp law firm of the claims against it in all the pending cases. The Company intends to vigorously defend against this litigation. The Company is unable to predict the outcome or the timing of the ultimate resolution of this litigation, or the potential losses, if any, that may result.

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 $190 million as of June 30, 2018. 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 matters as to which an estimate can be made. For certain matters, the Company does not believe an estimate can currently be made, as some matters are in preliminary stages and some matters 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.

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 and FCM/FDM 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 routes client orders for execution 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 collateral. 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 liquidate certain positions 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. During February 2018, the public equity markets experienced a spike in volatility, including a sharp decline in the S&P 500 index. These market events had a significant impact on investments that are sensitive to volatility, including options on futures products. As a result of these market events, the Company recorded a net provision for doubtful accounts on client receivables of approximately $58 million during the second quarter of fiscal 2018, mostly related to clients holding concentrated positions in these market sensitive investments. These losses are included in other operating expenses on the Condensed Consolidated Statements of Income. 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 contracts with unaffiliated FCM, FDM and broker-dealer entities to clear and execute futures and foreign exchange transactions for its clients. This can result in concentrations of credit risk with one or more of these counterparties. This risk is partially mitigated by the counterparties' obligation to comply with rules and regulations governing FCMs, FDMs and broker-dealers in the United States. These rules generally require maintenance of net capital and segregation of client funds and securities. In addition, the Company manages this risk by requiring credit approvals for counterparties and by utilizing account funding and sweep arrangement agreements that generally specify that all client cash in excess of futures funding requirements be transferred back to the clients' securities brokerage accounts at the Company on a daily basis.

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 Company enters into off-balance sheet arrangements with TD and unaffiliated third-party depository financial institutions (together, the "Sweep Program Counterparties") to manage its sweep program. The sweep program is offered to eligible clients whereby the client's uninvested cash is swept into FDIC-insured (up to specified limits) money market deposit accounts at the Sweep Program Counterparties. The Company earns revenue on client cash at the Sweep Program Counterparties based on the return of floating-rate and fixed-rate notional investments. The Company designates amounts and maturity dates for the fixed-rate notional investments within the sweep program

portfolios, subject to certain limitations. In the event the Company instructs the Sweep Program Counterparties to withdraw a fixed-rate notional investment prior to its maturity, the Company may be required to reimburse the Sweep Program Counterparties for any losses as a result of the early withdrawal. In order to mitigate the risk of potential loss due to the early withdrawal of fixed-rate notional investments, the Company maintains a certain level of short-term floating-rate investments within the sweep program portfolios to meet client cash demands. See “Insured Deposit Account Agreement” in Note 15 for a description of the sweep arrangement between the Company and TD.

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The Company has accepted collateral in connection with client margin loans and securities borrowed. Under applicable agreements, the Company is generally permitted to repledge securities held as collateral and use them to enter into securities lending arrangements. 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, 2018	September 30, 2017
Client margin securities	$ 31.0	$ 23.8
Stock borrowings	0.9	1.2
Total collateral available	$ 31.9	$ 25.0
Collateral loaned	$ 3.4	$ 2.4
Collateral repledged	6.1	4.1
Total collateral loaned or repledged	$ 9.5	$ 6.5

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, 2018	September 30, 2017
Cash	Receivable from brokers, dealers and clearing organizations	$ 664	$ 151
U.S. government debt securities	Securities owned, at fair value	90	398
Total		$ 754	$ 549

The Company utilizes securities sold under agreements to repurchase (repurchase agreements) to finance its short-term liquidity and capital needs. Under these agreements, the Company receives cash from the counterparties and provides U.S. Treasury securities as collateral, allowing the counterparties the right to sell or repledge the collateral. These agreements expose the Company to credit losses in the event the counterparties cannot meet their obligations. The Company mitigates this risk by requiring credit approvals for counterparties, by monitoring the market value of pledged securities owned on a daily basis and requiring the counterparties to return cash or excess collateral pledged when necessary.

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 unaffiliated clearing firms. The Company also contracts with an external provider to facilitate foreign exchange trading for its clients. The Company has agreed to indemnify these unaffiliated clearing firms and the external provider for any loss that they may incur for the client transactions introduced to them by the Company.

See "Insured Deposit Account Agreement" in Note 15 for a description of the guarantees included in that agreement.

11. 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

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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, U.S. government agency mortgage-backed securities, which consist of Ginnie Mae Home Equity Conversion Mortgages, 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.

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, 2018 and September 30, 2017 (dollars in millions):

	As of June 30, 2018			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	$1,002	$—	$ —	$ 1,002
Investments segregated for regulatory purposes:				
U.S. government debt securities	—	800	—	800
U.S. government agency mortgage-backed securities	—	1,383	—	1,383
Subtotal - Investments segregated for regulatory purposes	—	2,183	—	2,183
Securities owned:				
U.S. government debt securities	—	189	—	189
Other	1	5	—	6
Subtotal - Securities owned	1	194	—	195
Investments available-for-sale:				
U.S. government debt securities	—	487	—	487
Other assets:				
Pay-variable interest rate swaps(1)	—	3	—	3
U.S. government debt securities	—	1	—	1
Auction rate securities	—	—	1	1
Subtotal - Other assets	—	4	1	5
Total assets at fair value	$1,003	$2,868	$ 1	$ 3,872
Liabilities:				
Accounts payable and other liabilities:				
Pay-variable interest rate swaps(1)	$—	$80	$ —	$ 80

(1) See "Fair Value Hedging" in Note 8 for details.

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	As of September 30, 2017			
	Level 1	Level 2	Level 3	Fair Value
Assets:				
Cash equivalents:				
Money market mutual funds	$1,081	$—	$ —	$ 1,081
Investments segregated for regulatory purposes:				
U.S. government debt securities	—	4,094	—	4,094
U.S. government agency mortgage-backed securities	—	1,486	—	1,486
Subtotal - Investments segregated for regulatory purposes	—	5,580	—	5,580
Securities owned:				
U.S. government debt securities	—	498	—	498
Other	1	4	—	5
Subtotal - Securities owned	1	502	—	503
Investments available-for-sale:				
U.S. government debt securities	—	746	—	746
Other assets:				
Pay-variable interest rate swaps(1)	—	26	—	26
U.S. government debt securities	—	1	—	1
Auction rate securities	—	—	1	1
Subtotal - Other assets	—	27	1	28
Total assets at fair value	$1,082	$6,855	$ 1	$ 7,938
Liabilities:				
Accounts payable and other liabilities:				
Pay-variable interest rate swaps(1)	$—	$3	$ —	$ 3

(1) See "Fair Value Hedging" in Note 8 for details.

There were no transfers between any levels of the fair value hierarchy during the periods covered by this report.

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:

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.

U.S. government agency mortgage-backed securities — Fair values for mortgage-backed 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 and in markets that are not active, a market derived prepayment curve, weighted average yields on the underlying collateral and

spreads to benchmark indices. The Company validates the vendor pricing by periodically comparing it to pricing from two other independent sources. 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 Company using a valuation model provided by a third-party service 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. Credit risk is not an input to the valuation because in each case the Company or counterparty 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 third-party service valuations by comparing them to valuation models provided by the swap counterparties.

Level 3 Measurements:

The Company has no material assets or liabilities classified as Level 3 of the fair value hierarchy.

Fair Value of Financial Instruments Not Recorded at Fair Value

Receivable from/payable to brokers, dealers and clearing organizations, receivable from/payable to clients, receivable from/payable to affiliates, other receivables, accounts payable and other liabilities and certain other borrowings are short-term in nature and accordingly are carried at amounts that approximate fair value. These financial instruments 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 and other assets include 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 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). Cash and investments segregated and on deposit for regulatory purposes also includes cash held in demand deposit accounts and on deposit with futures commission merchants, for which the carrying values approximate the fair value (categorized as Level 1 of the fair value hierarchy). See Note 4 for a summary of cash and investments segregated and on deposit for regulatory purposes. Other assets included reverse repurchase agreements of $65 million as of September 30, 2017.

Securities sold under agreements to repurchase (repurchase agreements) included within other borrowings — Under repurchase agreements the Company receives cash from the counterparties and provides U.S. Treasury securities as collateral. The obligations to repurchase securities sold are reflected as a liability on the Condensed Consolidated Balance Sheets. Repurchase agreements are treated as collateralized financing transactions and are carried at amounts at which the securities will subsequently be repurchased, plus accrued interest. The Company's repurchase agreements are short-term in nature and accordingly the carrying value is a reasonable estimate of fair value (categorized as Level 2 of the fair value hierarchy).

Long-term debt — As of June 30, 2018, 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 $2.52 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $2.46 billion. As of September 30, 2017, the Company's Senior Notes had an aggregate estimated fair value, based on quoted market prices, of approximately $2.63 billion, compared to the aggregate carrying value of the Senior Notes on the Condensed Consolidated Balance Sheet of $2.56 billion.

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12. Offsetting Assets and Liabilities

Substantially all of the Company's securities sold under agreements to repurchase (repurchase agreements), reverse repurchase agreements, securities borrowing and securities lending activity and derivative financial instruments are transacted under master agreements that may allow for net settlement in the ordinary course of business, as well as offsetting of all contracts with a given counterparty in the event of default by one of the parties. However, for financial statement purposes, the Company does not net balances related to these financial instruments.

The following tables present information about the potential effect of rights of setoff associated with the Company's recognized assets and liabilities as of June 30, 2018 and September 30, 2017 (dollars in millions):

	June 30, 2018					
				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet	Financial Instruments[5]	Collateral Received or Pledged (Including Cash)[6]	Net Amount[7]
Assets:						
Investments segregated for regulatory purposes:						
Reverse repurchase agreements	$500	$ —	$ 500	$—	$ (500)	$ —
Receivable from brokers, dealers and clearing organizations:						
Deposits paid for securities borrowed[1]	877	—	877	(46)	(809)	22
Other assets:						
Pay-variable interest rate swaps	3	—	3	—	(3)	—
Total	$1,380	$ —	$ 1,380	$(46)	$ (1,312)	$ 22
Liabilities:						
Payable to brokers, dealers and clearing organizations:						
Deposits received for securities loaned[2][3]	$3,424	$ —	$ 3,424	$(59)	$ (3,025)	$ 340
Securities sold under agreements to repurchase[4]	97	—	97	2	(99)	—
Accounts payable and other liabilities:						
Pay-variable interest rate swaps	80	—	80	11	(78)	13
Total	$3,601	$ —	$ 3,601	$(46)	$ (3,202)	$ 353

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	September 30, 2017					
				Gross Amounts Not Offset in the Condensed Consolidated Balance Sheet		
	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet	Financial Instruments[5]	Collateral Received or Pledged (Including Cash)[6]	Net Amount[7]
Assets:						
Investments segregated for regulatory purposes:						
Reverse repurchase agreements	$1,004	$ —	$ 1,004	$—	$ (1,004)	$ —
Receivable from brokers, dealers and clearing organizations:						
Deposits paid for securities borrowed[1]	1,154	—	1,154	(110)	(1,023)	21
Other assets:						
Pay-variable interest rate swaps	26	—	26	—	(26)	—
Reverse repurchase agreements	65	—	65	—	(65)	—
Total other assets	91	—	91	—	(91)	—
Total	$2,249	$ —	$ 2,249	$(110)	$ (2,118)	$ 21
Liabilities:						
Payable to brokers, dealers and clearing organizations:						
Deposits received for securities loaned[2][3]	$2,449	$ —	$ 2,449	$(112)	$ (2,113)	$ 224
Securities sold under agreements to repurchase[4]	97	—	97	2	(99)	—
Accounts payable and other liabilities:						
Pay-variable interest rate swaps	3	—	3	—	(1)	2
Total	$2,549	$ —	$ 2,549	$(110)	$ (2,213)	$ 226

(1) Included in the gross amounts of deposits paid for securities borrowed is $505 million and $675 million as of June 30, 2018 and September 30, 2017, respectively, transacted through a risk-sharing program with the OCC, which guarantees the return of cash to the Company. See "General Contingencies" in Note 10 for a discussion of the potential risks associated with securities borrowing transactions and how the Company mitigates those risks.

(2) Included in the gross amounts of deposits received for securities loaned is $2.32 billion and $1.65 billion as of June 30, 2018 and September 30, 2017, respectively, transacted through a risk-sharing program with the OCC, which guarantees the return of securities to the Company. See "General Contingencies" in Note 10 for a discussion of the potential risks associated with securities lending transactions and how the Company mitigates those risks.

(3) Substantially all of the Company's securities lending transactions have a continuous contractual term and, upon notice by either party, may be terminated within two business days. The following table summarizes the Company's gross liability for securities lending transactions by the class of securities loaned (dollars in millions):

	June 30, 2018	September 30, 2017

Deposits received for securities loaned:		
Equity securities	$ 3,007	$ 2,109
Exchange-traded funds	265	230
Closed-end funds	101	66
Other	51	44
Total	$ 3,424	$ 2,449

(4) The collateral pledged includes available-for-sale U.S. government debt securities at fair value. All of the Company's repurchase agreements have a remaining contractual maturity of less than one year and, upon default by either party, may be terminated at the option of the non-defaulting party. See "General Contingencies" in Note 10 for a discussion of the potential risks associated with repurchase agreements and how the Company mitigates those risks.

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(5) Amounts represent recognized assets and liabilities that are subject to enforceable master agreements with rights of setoff.

(6) Represents the fair value of collateral the Company had received or pledged under enforceable master agreements, limited for table presentation purposes to the net amount of the recognized assets due from or liabilities due to each counterparty. At June 30, 2018 and September 30, 2017, the Company had received total collateral with a fair value of $1.37 billion and $2.26 billion, respectively, and pledged total collateral with a fair value of $3.24 billion and $2.32 billion, respectively.

(7) Represents the amount for which, in the case of net recognized assets, the Company had not received collateral, and in the case of net recognized liabilities, the Company had not pledged collateral.

13. Accumulated Other Comprehensive Loss

The following tables present the net change in fair value recorded for each component of other comprehensive income (loss) before and after income tax for the periods indicated (dollars in millions):

	Three Months Ended June 30,					
	2018			2017		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Investments available-for-sale:						
Unrealized gain (loss)	$(2)	$ —	$(2)	$1	$ —	$ 1
Net change in investments available-for-sale	(2)	—	(2)	1	—	1
Cash flow hedging instruments:						
Reclassification adjustment for portion of realized loss amortized to net income[1]	1	—	1	1	(1)	—
Net change in cash flow hedging instruments	1	—	1	1	(1)	—
Other comprehensive income (loss)	$(1)	$ —	$(1)	$2	$ (1)	$ 1

	Nine Months Ended June 30,					
	2018			2017		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Investments available-for-sale:						
Unrealized loss	$(8)	$ 1	$(7)	$(8)	$ 3	$(5)
Reclassification adjustment for realized loss included in net income[2]	11	(4)	7	—	—	—
Net change in investments available-for-sale	3	(3)	—	(8)	3	(5)
Cash flow hedging instruments:						
Reclassification adjustment for portion of realized loss amortized to net income[1]	3	—	3	3	(1)	2
Net change in cash flow hedging instruments	3	—	3	3	(1)	2
Other comprehensive income (loss)	$6	$ (3)	$3	$(5)	$ 2	$(3)

(1) The before tax reclassification amounts and the related tax effects are included in interest on borrowings and provision for income taxes, respectively, on the Condensed Consolidated Statements of Income.

(2) The before tax reclassification amount and related tax effect are included in loss on sale of investments and provision for income taxes, respectively, on the Condensed Consolidated Statements of Income.

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The following table presents after-tax changes in each component of accumulated other comprehensive loss for the periods indicated (dollars in millions):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Investments available-for-sale:				
Beginning balance	$(3)	$(6)	$(5)	$—
Other comprehensive income (loss) before reclassifications	(2)	1	(7)	(5)
Amounts reclassified from accumulated other comprehensive loss	—	—	7	—
Current period change	(2)	1	—	(5)
Ending balance	$(5)	$(5)	$(5)	$(5)
Cash flow hedging instruments:				
Beginning balance	$(18)	$(20)	$(20)	$(22)
Amounts reclassified from accumulated other comprehensive loss	1	—	3	2
Ending balance	$(17)	$(20)	$(17)	$(20)
Total accumulated other comprehensive loss:				
Beginning balance	$(21)	$(26)	$(25)	$(22)
Current period change	(1)	1	3	(3)
Ending balance	$(22)	$(25)	$(22)	$(25)

14. Earnings Per Share

The difference between the numerator and denominator used in the computation of basic and diluted earnings per share consists of common stock equivalent shares related to stock-based compensation for all periods presented. There were no material antidilutive awards for the three and nine months ended June 30, 2018 and 2017.

15. Related Party Transactions

Transactions with TD and its Affiliates

As a result of the Company's acquisition of TD Waterhouse Group, Inc. during fiscal 2006, TD became an affiliate of the Company. TD owned approximately 41% of the Company's common stock as of June 30, 2018. Pursuant to the stockholders agreement between TD and the Company, 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

The Company is party to an insured deposit account ("IDA") agreement with TD Bank USA, N.A. ("TD Bank USA"), TD Bank, N.A. and TD. Under the IDA agreement, TD Bank USA and TD Bank, N.A. (together, the "TD Depository Institutions") make available to clients of the Company FDIC-insured (up to specified limits) money market deposit accounts as either designated sweep vehicles or as non-sweep deposit accounts. The Company provides marketing, recordkeeping and support services for the TD Depository Institutions with respect to the money market deposit accounts. In exchange for providing these services, the TD Depository Institutions pay 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 servicing fee to the TD Depository Institutions and the cost of FDIC insurance premiums.

The current IDA agreement became effective as of January 1, 2013 and had 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 TD 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. As of July 1, 2016, notice of non-renewal was not provided by either party, therefore the IDA agreement was automatically renewed for an additional five-year term on July 1, 2018.

The fee earned on the IDA agreement is 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

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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. As of June 30, 2018, the IDA portfolio was comprised of approximately 77% fixed-rate notional investments and 23% floating-rate investments.
The 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. For example, if the Company designates that $100 million of deposits be invested in 5-year fixed-rate investments, and on the day such investment is confirmed by the TD Depository Institutions the prevailing fixed yield for the applicable 5-year U.S. dollar LIBOR-based swaps is 1.45%, then the Company will earn a gross fixed yield of 1.45% on that portion of the portfolio (before any deductions for interest paid to clients, the servicing fee to the TD Depository Institutions and the cost of FDIC insurance premiums). 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%.
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.
The interest rates paid to clients are set by the TD Depository Institutions and are not linked to any index. The servicing fee to the TD Depository Institutions under the 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 such 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 TD Depository Institutions' leverage costs) and a maximum of 25 basis points.
In the event the marketing fee computation results in a negative amount, the Company must pay the TD Depository Institutions the negative amount. This effectively results in the Company guaranteeing the TD 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 likelihood that the marketing fee calculation would result in a negative amount is remote. Accordingly, no contingent liability is carried on the Condensed Consolidated Balance Sheets for the IDA agreement.
In the event the Company withdraws a notional investment prior to its maturity, the Company is required to reimburse the TD Depository Institutions an amount equal to the economic replacement value of the investment, as defined in the IDA agreement. See "General Contingencies" in Note 10 for a discussion of how the Company mitigates the risk of losses due to the early withdrawal of fixed-rate notional investments.
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 its Affiliates			
	Statement of Income Classification	Three months ended June 30,		Nine months ended June 30,	
Description		2018	2017	2018	2017

Insured Deposit Account Agreement	Bank deposit account fees	$363	$286	$1,056	$800
Mutual Fund Agreements	Investment product fees	4	4	13	11
Other	Various	4	2	11	7
Total revenues		$371	$292	$1,080	$818

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Description	Statement of Income Classification	Expenses to TD and its Affiliates			
		Three months ended June 30,		Nine months ended June 30,	
		2018	2017	2018	2017
Canadian Call Center Services Agreement[(1)]	Professional services	$ —	$ 3	$ —	$ 9
Referral and Strategic Alliance Agreement	Other expense	1	1	4	4
Other	Various	1	—	2	2
Total expenses		$ 2	$ 4	$ 6	$ 15

(1) The Company notified TD of its intent to not extend or renew the Canadian Call Center Services Agreement and services under this agreement ended by September 30, 2017.

The following table summarizes the classification and amount of receivables from and payables to TD and its affiliates on the Condensed Consolidated Balance Sheets resulting from related party transactions (dollars in millions):

	June 30, 2018	September 30, 2017
Assets:		
Receivable from affiliates	$ 162	$ 110
Liabilities:		
Payable to brokers, dealers and clearing organizations	$ 155	$ 37
Payable to affiliates	4	38

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

As of June 30, 2018, receivables from and payables to affiliates on the Condensed Consolidated Balance Sheets included $39 million and $44 million, respectively, in connection with the acquisition of Scottrade and are expected to be settled during fiscal 2018. As of September 30, 2017, receivables from and payables to affiliates included $27 million of assets acquired and $71 million of liabilities assumed, respectively, in connection with the acquisition of Scottrade.

Item 2. - Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements and Notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2017, and the Condensed Consolidated Financial Statements and Notes thereto contained in this quarterly report on Form 10-Q.

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words "may," "could," "would," "should," "believe," "expect," "anticipate," "plan," "estimate," "target," "project," "intend" and similar words or expressions. In particular, forward-looking statements contained in this discussion include our expectations regarding: the effect of client trading activity on our results of operations; the effect of changes in interest rates on our net interest spread; diluted earnings per share; net revenues; total operating expenses; organic growth rate; acquisition-related expenses; advertising expense; our effective income tax rate; and our capital and liquidity needs and our plans to finance such needs.

The Company's actual results could differ materially from those anticipated in such forward-looking statements. Important factors that may cause such differences include, but are not limited to: economic, social and political conditions and other securities industry risks; interest rate risks; liquidity risks; credit risk with clients and counterparties; risk of liability for errors in clearing functions; systemic risk; systems failures, delays and capacity constraints; network security risks; competition; reliance on external service providers; new laws and regulations affecting our business; net capital requirements; extensive regulation, regulatory uncertainties and legal matters; difficulties and delays in integrating the Scottrade Financial Services, Inc. ("Scottrade") business or fully realizing cost savings and other benefits from the acquisition; business disruption following the Scottrade acquisition; disruptions due to Scottrade integration-related uncertainty or other factors making it more difficult to maintain relationships with employees, customers, other business partners or governmental entities; the inability to achieve synergies or to implement

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integration plans and other consequences associated with other acquisitions; and the other risks and uncertainties set forth under Item 1A. – Risk Factors of the Company's annual report on Form 10-K for the fiscal year ended September 30, 2017. The forward-looking statements contained in this report speak only as of the date on which the statements were made. We undertake no obligation to publicly update or revise these statements, whether as a result of new information, future events or otherwise, except to the extent required by the federal securities laws.

The preparation of our financial statements requires us to make judgments and estimates that may have a significant impact upon our financial results. Note 1 of our Notes to Consolidated Financial Statements in our annual report on Form 10-K for the fiscal year ended September 30, 2017, contains a summary of our significant accounting policies, many of which require the use of estimates and assumptions. We believe that the following areas are particularly subject to management's judgments and estimates and could materially affect our results of operations and financial position: valuation of goodwill and acquired intangible assets; estimates of effective income tax rates, uncertain tax positions, deferred income taxes and related valuation allowances; accruals for contingent liabilities; and valuation of guarantees. These areas are discussed in further detail under the heading "Critical Accounting Policies and Estimates" in Item 7 of our annual report on Form 10-K for the fiscal year ended September 30, 2017.

The term "GAAP" refers to U.S. generally accepted accounting principles. We utilize non-GAAP calculations of earnings before interest, taxes, depreciation and amortization ("EBITDA") and liquid assets. We believe that these non-GAAP measures may be useful in evaluating the operating performance and liquidity of the business. Reference to these non-GAAP measures should not be considered as a substitute for results that are presented in a manner consistent with GAAP. These non-GAAP measures are provided to enhance investors' overall understanding of our financial performance.

Unless otherwise indicated, the terms "we," "us," "our" or "Company," or "TD Ameritrade" in this report refer to TD Ameritrade Holding Corporation and its wholly-owned subsidiaries.

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.

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.

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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, 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 and Selective 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 include fees earned on money market mutual funds, other mutual funds and through our programs such as AdvisorDirect® and Selective Portfolios.

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. We consider liquid assets to be an important measure of our liquidity, including our ability to meet corporate cash flow needs, fund potential operational contingencies and support our business strategies. We define liquid assets as the sum of (a) corporate cash and cash equivalents, (b) corporate investments, less securities

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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 our programs such as AdvisorDirect,® Essential Portfolios and Selective 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 revenue-sharing arrangements with market destinations (also referred to as "payment for order flow"). 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

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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.

Results of Operations

Conditions in the U.S. equity markets significantly impact the volume of our clients' trading activity. There is a strong relationship between the volume of our clients' trading activity and our results of operations. We cannot predict future trading volumes in the U.S. equity markets. If client trading activity increases, we generally expect that it would have a positive impact on our results of operations. If client trading activity declines, we expect that it would have a negative impact on our results of operations.
Changes in average client balances, especially bank deposit account, margin, credit and fee-based investment balances, may significantly impact our results of operations. Changes in interest rates also significantly impact our results of operations. We seek to mitigate interest rate risk by aligning the average duration of our interest-earning assets with that of our interest-bearing liabilities. We cannot predict the direction of interest rates or the levels of client balances. If interest rates rise, we generally expect to earn a larger net interest spread. Conversely, a falling interest rate environment generally would result in us earning a smaller net interest spread.

Financial Performance Metrics

Net income, diluted earnings per share and EBITDA are key metrics we use in evaluating our financial performance. Net income and diluted earnings per share are GAAP financial measures and EBITDA is a non-GAAP financial measure.
We consider EBITDA to be an important measure of our financial performance and of our ability to generate cash flows to service debt, fund capital expenditures and fund other corporate investing and financing activities. EBITDA is used as the denominator in the consolidated leverage ratio calculation for covenant purposes under the TD Ameritrade Holding Corporation 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.
The following table sets forth net income in dollars and as a percentage of net revenues for the periods indicated, and provides reconciliations to EBITDA (dollars in millions):

	Three months ended June 30,				Nine months ended June 30,			
	2018		2017		2018		2017	
	$	% of Net Revenues	$	% of Net Revenues	$	% of Net Revenues	$	% of Net Revenues
Net income - GAAP	$451	32.6 %	$231	24.8 %	$1,019	25.1 %	$661	24.5 %
Add:								

Depreciation and amortization	37	2.7	%	25	2.7	%	106	2.6	%	74	2.7	%
Amortization of acquired intangible assets	32	2.3	%	19	2.0	%	107	2.6	%	57	2.1	%
Interest on borrowings	28	2.0	%	20	2.1	%	72	1.8	%	48	1.8	%
Provision for income taxes	152	11.0	%	142	15.3	%	259	6.4	%	395	14.7	%
EBITDA - non-GAAP	$700	50.7	%	$437	46.9	%	$1,563	38.6	%	$1,235	45.9	%

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Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Our net income increased 95% for the third quarter of fiscal 2018 compared to the same period in the prior year due to an increase in net revenues and a lower effective income tax rate, primarily due to the enactment of the Tax Cut and Jobs Act (the "Act") on December 22, 2017. These increases were partially offset by increases in operating expenses and interest on borrowings. Detailed analysis of net revenues and expenses is presented later in this discussion.

Our EBITDA increased 60% for the third quarter of fiscal 2018 compared to the same period in the prior year, primarily due to an increase in net revenues, partially offset by an increase in operating expenses excluding depreciation and amortization.

Our diluted earnings per share increased 80% to $0.79 for the third quarter of fiscal 2018 compared to $0.44 for the third quarter of the prior year due to higher net income, partially offset by an 8% increase in average diluted shares outstanding as a result of the issuance of our common stock in connection with the Scottrade acquisition. Based on our expectations for net revenues and expenses, each of which is expected to exceed the high end of our fiscal 2018 projections, and a lower effective income tax rate as a result of the Act, we expect diluted earnings per share to exceed our guidance range of $1.85 to $2.45 for fiscal year 2018, depending largely on the level of client trading activity, client asset growth and the level of interest rates.

Nine Months Ended June 30, 2018 Compared to Nine Months Ended June 30, 2017

Our net income increased 54% for the first nine months of fiscal 2018 compared to the same period in the prior year due to an increase in net revenues and a lower effective income tax rate, primarily due to the enactment of the Act. These increases were partially offset by increases in operating expenses and interest on borrowings, and an $11 million loss on sale of investments during the first quarter of fiscal 2018.

Our EBITDA increased 27% for the first nine months of fiscal 2018 compared to the same period in the prior year, primarily due to an increase in net revenues, partially offset by an increase in operating expenses excluding depreciation and amortization, and an $11 million loss on sale of investments during the first quarter of fiscal 2018.

Our diluted earnings per share increased 43% to $1.79 for the first nine months of fiscal 2018 compared to $1.25 for the first nine months of the prior year due to higher net income, partially offset by an 8% increase in average diluted shares outstanding as a result of the issuance of our common stock in connection with the Scottrade acquisition.

Operating Metrics

Our largest sources of revenues are asset-based revenues and transaction-based revenues. For the first nine months of fiscal 2018, asset-based revenues and transaction-based revenues accounted for 61% and 37% of our net revenues, respectively. Asset-based revenues consist 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 lending balances. Average rates consist of the average interest rates and fees earned and paid on such balances. The primary factors driving our transaction-based revenues are total trades and average commissions per trade. We also consider client account and client asset metrics, although we believe they are generally of less significance to our results of operations for any particular period than our metrics for asset-based and transaction-based revenues.

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Asset-Based Revenue Metrics

We calculate the return on our bank deposit account balances and our interest-earning assets using a measure we refer to as net interest margin. Net interest margin is calculated for a given period by dividing the annualized sum of bank deposit account fees and net interest revenue by average spread-based assets. Spread-based assets consist of client and brokerage-related asset balances, including bank deposit account balances, client margin balances, segregated cash, deposits paid on securities borrowing and other cash and interest-earning investment balances. The following table sets forth net interest margin and average spread-based assets (dollars in millions):

	Three months ended June 30,		Increase/ (Decrease)	Nine months ended June 30,		Increase/ (Decrease)
	2018	2017		2018	2017	
Average bank deposit account balances						

BLUE CALYPSO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 8 – STOCKHOLDERS' EQUITY

Common Stock

On January 9, 2014, the Company entered into agreements with the holder of certain of its outstanding warrants originally issued in private placement transactions in September 2011 and April 2012. Pursuant to such agreements, which are more fully described below, the Company agreed to extend the period during which the warrants were exercisable at a reduced exercise price.

On January 9, 2014, the Company entered into Amendment No. 4 to the warrants that were originally issued in September 2011. Pursuant to Amendment No. 4, the exercise price of the warrants was reduced to $2.50 per share until March 10, 2014.

On January 9, 2014, the Company entered into Amendment No. 3 to the warrant that was originally issued in April 19, 2012. Pursuant to Amendment No. 3, the exercise price of the warrants was reduced to $2.50 per share until March 10, 2014.

On January 10, 2014, holders of such warrants exercised an aggregate of 224,000 warrants to purchase common stock at the reduced exercise price per share of $2.50 resulting in $560,000 in cash proceeds. In connection with the warrant exercise, the Company incurred a non-cash interest expense due to warrant modification of $241,176 when the inducement offer was accepted during the year ended December 31, 2014.

On March 10, 2014, aggregate of 185,823 of such warrants were exercised resulting in $464,558 in cash proceeds. The Company issued such shares to the holder in April 2014. In connection with the warrant exercise, the Company incurred a non-cash interest expense due to warrant modification of $219,773 when the inducement offer was accepted during the year ended December 31, 2014.

During the year ended December 31, 2014, the Company issued an aggregate of 22,154 shares of its common stock as consideration for investor relations services valued at $130,000.

During the year ended December 31, 2014, the Company issued an aggregate of 9,046 shares of its common stock as consideration for legal services valued at $65,468.

On August 18, 2014, pursuant to a securities purchase agreement, the Company sold an aggregate of 285,000 shares of its common stock for net proceeds, after commissions and other costs, of $1,330,000. Commissions and other costs totaled $95,000.

On December 12, 2014, 588,241 shares of the Company's Series A Convertible Preferred Stock were converted into an aggregate of 173,267 shares of common stock at the stated conversion price of $3.395 per share.

On December 31, 2014, Bill Ogle, our former Chief Executive Officer, returned to treasury, and subsequently canceled, 2,222 shares of the Company's common stock valued at $10,000 as payment for the exercise price of 2,000 previously granted options. Documents associated with the transaction were executed during December 2014 with actual shares issued during January 2015. The related impact on outstanding shares has been recognized as of December 31, 2014.

On March 3, 2015, 161,827 shares of the Company's Series A Convertible Preferred Stock were converted into an aggregate of 47,646 shares of common stock at the stated conversion price of $3.395 per share.

During the year ended December 31, 2015, the Company issued 19,448 shares of its common stock as consideration for investor relations services valued at $104,026.

During the year ended December 31, 2015, the Company issued 26,293 shares of its common stock as consideration for legal services valued at $122,342.

In September and October 2015, pursuant to a securities purchase agreement, the Company sold an aggregate of 482,500 shares of its common stock together with warrants to purchase an aggregate of 482,500 shares of its common stock for net proceeds, after commissions and other costs, of $1,854,725. The warrants are exercisable at an exercise price of $4.75 for a term of five years. The Company was required to file a registration statement covering the shares and the shares issuable upon exercise of the warrants no later than thirty days following the closing. The registration statement was filed on November 2, 2015 and effective November 6, 2015. In addition, the purchase agreement prohibits the Company from effecting any public offering of common stock within ninety days of the closing unless the closing price of the Company's common stock is above $15.00 per share for ten consecutive trading days.

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The Company paid the placement agent cash commissions equal to 8% of the gross proceeds of the offering of $164,050 and also reimbursed the placement agent for its out of pocket expenses and paid other placement costs in aggregate of $31,850.

Long-Term Incentive Plan

The stockholders approved the Blue Calypso, Inc. 2011 Long-Term Incentive Plan (the "Plan") on September 9, 2011. The Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards which may be granted singly, in combination, or in tandem, and which may be paid in cash or shares of common stock. Subject to certain adjustments, the maximum number of shares of common stock that may be delivered pursuant to awards under the Plan is 700,000 shares.

Options

Option valuation models require the input of highly subjective assumptions. The fair value of stock-based payment awards was estimated using the Black-Scholes option model with a volatility figure derived from an index of historical stock prices of comparable entities until sufficient data exists to estimate the volatility using the Company's own historical stock prices. Management determined this assumption to be a more accurate indicator of value. The Company accounts for the expected life of options based on the contractual life of options for non-employees.

For employees, the Company accounts for the expected life of options in accordance with the "simplified" method, which is used for "plain-vanilla" options, as defined in the accounting standards codification.

The risk-free interest rate was determined from the implied yields of U.S. Treasury zero-coupon bonds with a remaining life consistent with the expected term of the options. The fair value of stock-based payment awards during the years ended December 31, 2015 and 2014 was estimated using the Black-Scholes pricing model.

In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the number of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

The Company estimated forfeitures related to option grants at a weighted average annual rate of 0% per year, as the Company does not yet have adequate historical data, for options granted during the years ended December 31, 2015 and 2014.

The following assumptions were used in determining the fair value of employee and vesting non-employee options:

	December 31, 2015	December 31, 2014
Risk-free interest rate	1.37% - 2.27 %	1.97% - 2.73 %

Dividend yield	0 %		0 %
Stock price volatility	123.05% - 140.67 %		76% - 79 %
Expected life	5-10 years		6-10 years
Weighted average grant date fair value	$ 5.90		$ 5.50

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On March 14, 2014, the Compensation Committee of the Board of Directors approved an equity bonus for the Company's former Chief Executive Officer, Bill Ogle, consisting of stock options with a fair value of $800,000. The total bonus awarded was $1,140,000 of which $85,000 was paid in cash and $1,055,000 was granted in stock options valued using the Black Scholes model. Accordingly, the Company granted options to purchase 184,655 shares of common stock to Mr. Ogle effective March 14, 2014 exercisable at $7.00 per share for ten years, vesting over a term of three years. Subsequent to issuance and pursuant to a standstill agreement entered into on September 26, 2014 with a significant stockholder, Mr. Ogle agreed to return and cancel 15,000 of the previously granted March 2014 options and purchase $85,000 in the Company's common stock within 12 months following the date of the agreement, with $15,000 being purchased by December 15, 2014. In conjunction with the standstill agreement, Mr. Ogle and the Co-Chief Executive Officer and Chief Technology Officer Andrew Levi agreed to a fifty percent reduction in their annual base salary for a period of twelve months following the date of the agreement.

In April 2014, the Company awarded an aggregate of 34,600 of stock options to certain employees and one contractor. The stock options have exercise prices from $6.00 to 6.50 per share, will vest over a three year period, and have an approximate fair value of $170,000 using the Black Scholes model.

On April 9, 2014, 6,400 options were exercised at $3.395 per share for cash proceeds of $21,728.

In May 2014, the Company awarded an aggregate of 25,000 of stock options to members of the Company's Board of Directors. The stock options have exercise price of $5.00 per share, will vest over a three year period, and have an approximate fair value of $101,000 using the Black Scholes model.

In June 2014, the Company awarded an aggregate of 2,000 of stock options to certain employees. The stock options have exercise price of $5.50 per share, will vest over a three-year period, and have an approximate fair value of $9,000 using the Black Scholes model.

On August 15, 2014, the Company's Board of Directors approved accelerating to fully vested previously granted options of the Company's past Chief Financial Officer and to set an expiry date of August 15, 2017. Accordingly, the remaining unrecognized expense was charged to operations during the year ended December 31, 2014.

On October 23, 2014, the Company's Board of Directors approved accelerating to fully vested previously granted options of the Company's past Chief Operating Officer and to set an expiry date of December 31, 2017. Accordingly, the remaining unrecognized expense was charged to operations during the year ended December 31, 2014.

Effective December 31, 2014, the Company's Board of Directors approved the continued vesting of previously granted options through April 30, 2016 of the Company's former Chief Executive Officer and to set an expiry date of December 31, 2017. Options that would not have vested through April 30, 2016 were considered forfeited as of December 31, 2014. Accordingly, the remaining unrecognized expense related to the non-forfeited options was charged to operations during the year ended December 31, 2014.

During December 2014, the Board of Directors appointed Jonathan Merriman to the Board of Directors. In conjunction with his appointment, the Board of Directors also granted Mr. Merriman options to purchase 7,500 shares of the Company's Common Stock and subsequently in January 2015, the associated option agreement was finalized. The stock options have exercise price of $5.00 per share, will vest over a three-year period, term of 10 years and have an approximate fair value of $34,945 using the Black Scholes model.

In April 2015, the Company awarded options to purchase an aggregate of 80,000 shares of common stock to board members. These options vest beginning June 30, 2015 through March 31, 2018 on a quarterly basis, have a term of 10 years and contain an exercise price of $7.00 per share. The options had an aggregate grant date fair value of $493,774.

In May 2015, the Company awarded an option to purchase 10,000 shares of common stock to a consultant. These options vest beginning June 30, 2015 through March 31, 2017 on a quarterly basis, have a term of 10 years and contain an exercise price of $7.00 per share. The options had an aggregate grant date fair value of $52,049.

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In May 2015, the Company awarded an option to purchase 1,000 shares of common stock to an employee. These options vest over three years on the grant date anniversary, have a term of 10 years and contain an exercise price of $6.50 per share. The options had an aggregate grant date fair value of $5,570.

In May 2015, the Company awarded an option to purchase 20,000 shares of common stock to a new board member. These options vest beginning June 30, 2015 through March 31, 2018 on a quarterly basis, have a term of 10 years and contain an exercise price of $7.00 per share. The options had an aggregate grant date fair value of $128,115.

In June 2015, the Company awarded options to purchase an aggregate of 8,000 shares of common stock to four consultants. These options vest beginning June 30, 2015 through March 31, 2018 on a quarterly basis, have a term of 10 years and contain an exercise price of $7.00 per share. The options had an aggregate grant date fair value of $41,688.

In September 2015, the Company awarded an option to purchase 10,000 shares of common stock to an employee. These options vest over three years on the grant date anniversary, have a term of 10 years and contain an exercise price of $5.14 per share. The options had an aggregate grant date fair value of $44,978.

In October 2015, the Company awarded an option to purchase 32,864 shares of common stock to the Company’s Chief Executive Officer, Andrew Levi. These options vest immediately, have a term of 10 years and contain an exercise price of $5.00 per share. The options had an aggregate grant date fair value of $137,501.

In October 2015, the Company awarded an option to purchase an aggregate of 5,000 shares of common stock to two employees. These options vest over three years on grant date anniversary, have a term of 10 years and contain an exercise prices from $2.86 to $3.90 per share. The options had an aggregate grant date fair value of $15,254.

On December 2, 2015, the Company’s Board of Directors approved accelerating to fully vested previously granted options of a departing director and to set an expiry date of December 31, 2016. Accordingly, the remaining unrecognized expense was charged to operations during the year ended December 31, 2015.

In December 2015, the Company awarded an option to purchase 20,000 shares of common stock to an employee. These options vest quarterly beginning December 31, 2015 through September 30, 2017, have a term of 10 years and contain an exercise price of $1.95 per share. The options had an aggregate grant date fair value of $40,658.

The following table summarizes the stock option activity for the years ended December 31, 2015 and 2014:

	Shares		Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at January 1, 2014	277,561	$	9.57	8.7	$	259,558
Granted	246,255	$	6.50	10.0	$	-
Exercised	(8,400)					
Forfeitures or expirations	(74,352)	$	8.11			
Outstanding at December 31, 2014	441,064	$	8.44	4.2	$	858,766
Granted	194,364	$	5.87	10.0	$	-

Forfeitures or expirations	(5,800)	$	14.53			
Outstanding at December 31, 2015	629,628	$	7.59	4.5	$	-
Exercisable at December 31, 2015	429,544	$	7.89	3.7	$	-

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The following table presents information related to stock options at December 31, 2015:

Options Outstanding		Options Exercisable	
Exercise Price	Number of Options	Weighted Average Remaining Life In Years	Exercisable Number of Options
$ 0.00-5.00	222,945	4.8	193,568
5.01-12.50	382,675	4.4	211,968
12.51-25.00	15,008	4.2	15,008
25.01-45.00	9,000	3.8	9,000
	629,628	4.5	429,544

As of December 31, 2015, stock-based compensation of $523,037 remains unamortized and is expected to be amortized over the weighted average remaining period of 2 years.

The stock-based compensation expense related to option grants was $583,603 and $1,250,113 during the years ended December 31, 2015 and 2014, respectively.

Restricted Stock

The following table summarizes the restricted stock activity for the two years ended December 31, 2015:

Restricted shares issued as of January 1, 2014	269,134
Granted	-
Total Restricted Shares Issued at December 31, 2014	269,134
Granted	-
Total Restricted Shares Issued at December 31, 2015	269,134
Vested at December 31, 2015	(269,134)
Unvested restricted shares as of December 31, 2015	-

Stock based compensation expense related to restricted stock grants was $-0- and $2,478,124 for the years ended December 31, 2015 and 2014, respectively. For the year ended December 31, 2015, there was no stock-based compensation relating to restricted stock unamortized, since the remaining unamortized expense was charged to operations upon the departure of the Company's former Chief Executive Officer in December 2014.

Warrants

The following table summarizes information with respect to outstanding warrants to purchase common stock of the Company, all of which were exercisable, at December 31, 2015:

Exercise Price	Number Outstanding	Expiration Date
$ 4.75	482,500	September/October 2020

$ 5.00		220,913	August 2016
	$	703,413	

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The following table summarizes the warrant activity for the years ended December 31, 2015 and 2014:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2014	649,915	$ 3.85	3.4	$ -
Grants	-	-		
Exercised	(409,823)	$ 10.00		
Forfeitures or expirations	(19,179)	$ 31.00		
Outstanding at January 1, 2015	220,913	$ 5.00	1.7	$ -
Grants	482,500	$ 4.75	5.0	$ -
Exercised	-			
Forfeitures or expirations	-			
Outstanding at December 31, 2015	703,413	$ 4.83	3.5	$ -
Exercisable at December 31, 2015	703,413	$ 4.83	3.5	$ -

In connection with the sale of common stock, the Company issued an aggregate of 482,500 warrants to purchase the Company's common stock at $4.75 per share expiring five years from the date of issuance.

NOTE 9 – RELATED PARTY TRANSACTIONS

The Company appointed a new Chief Financial Officer during August 2014. The Company utilizes Assure Professional, LLC ("Assure") to provide certain outsourced accounting services. The Company's current Chief Financial Officer is a partial owner of Assure. The Company incurred expense of $40,687 and $29,940 in exchange for these services during the years ended December 31, 2015 and 2014, respectively. Included in accounts payable at December 31, 2015 and 2014 was $2,250 due to Assure.

Jonathan Merriman was appointed to the Company's Board of Directors during December 2014. Mr. Merriman is the CEO of Merriman Capital, Inc. ("Merriman"). Merriman provides capital market advisory services to the Company for which we incurred expense of $125,000 and $120,000 during the years ended December 31, 2015 and 2014, respectively. The Company primarily issues common stock in exchange for monthly services and no amount was due to Merriman at December 31, 2015. In addition, Merriman Capital advised the Company in connection with its August 2014 private placement and received an advisory fee of $95,000 and acted as the Company's placement agent during its most recent offering. During September and October 2015, the Company paid Merriman cash commissions equal to 8% of the gross proceeds of the offering of $164,050 (see note 7) and also reimbursed the placement agent for its out of pocket expenses of $14,167.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Operating leases

On April 6, 2015, as amended on October 16, 2015, the Company entered into a lease agreement for office space for corporate offices expiring June 30, 2019. Lease payments are $5,696 per month, increasing to $6,347 in July 2018. In connection therewith, the Company paid a security deposit of $2,188.

On October 1, 2012, the Company entered into a lease agreement for office space for its wholly owned subsidiary in Costa Rica and expiring on September 30, 2018. Lease payments are $1,491 per month, increasing 3.5% at each anniversary. In connection therewith, the Company paid a security deposit of $1,345.

On December 15, 2014, the Company entered into a lease agreement for additional office space for its wholly owned subsidiary in Costa Rica which expires on December 15, 2017 and will automatically extend for an additional 3 year term unless notification is given three months in advance. Lease payments are $1,278 per month, increasing 3.5% at each anniversary. In connection therewith, the Company paid a security deposit of $1,235.

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Future minimum lease payments under these agreements are as follows:

Year Ending December 31,		
2016	$	102,719
2017		106,817
2018		89,565
2019		38,084
	$	337,185

Rental expense under the operating leases totaled $58,846 and $51,114 for the years ended December 31, 2015 and 2014, respectively.

Litigation

On July 31, 2012, the Company filed suit against Groupon, Inc. in the Eastern District of Texas in Civil Action No. 6:12-cv-00486. The Company filed additional suits against IZEA, Inc. on October 17, 2012, Yelp, Inc. on October 17, 2012, and Foursquare Labs, Inc. on October 31, 2012 in Civil Action Nos. 6:12-cv-786, 6:12-cv-788, 6:12-cv-837, respectively. Each of these cases alleges that the defendants infringe U.S. Patent Nos. 7,664,516 entitled "Method and System for Peer-to-Peer Advertising Between Mobile Communication Devices" and 8,155,679 entitled "System and Method for Peer-to-Peer Advertising Between Mobile Communication Devices." The Company subsequently added U.S. Patent Nos. 8,438,055, 8,452,646, and 8,457,670 to the cases, alleging each defendant infringed the newly added patents. Each of the defendants have answered, denying infringement and claiming that the asserted patents are invalid. Groupon, Yelp, and Foursquare filed counterclaims for declaratory judgment that the asserted patents are invalid and not infringed. Yelp filed an additional counterclaim for declaratory judgment that the asserted patens are unenforceable. The Court subsequently consolidated the actions for at least pre-trial purposes. Groupon filed a motion to transfer the case against it to the U.S. District Court for the Northern District of Illinois, which the Court denied on September 27, 2013. On February 3, 2014, Groupon filed a petition to the U.S. Court of Appeals for the Federal Circuit for mandamus on the district court's denial of its motion to transfer. On April 23, 2014, the petition was denied by the Federal Circuit.

Between July 19, 2013 and October 3, 2013, Groupon filed petitions with the Patent Trial & Appeals Board (“PTAB”) requesting institution of Covered Business Method Review (“CBMR”) of all asserted claims. On December 19, 2013 and January 17, 2014, the PTAB issued decisions instituting review on all but four of the asserted claims. On January 14, 2014, the Company and all defendants filed a joint motion to stay the district court litigation. The Court granted the motion and stayed the case on January 16, 2014 pending a decision by the PTAB. Trial on the CBMR at the PTAB occurred during September 2014.

On December 17, 2014, the Patent Trial and Appeal Board issued final decisions in Covered Business Method Review proceedings CBM2013-00035, CBM2013-00033, CBM2013-00034, CBM2013-00046 and CBM2013-00044. In each case, certain claims of each patent were held to be invalid for various reasons. With respect to the ‘516, ‘679, ‘055 and ‘646 patents, many of the claims survived and the patents remain enforceable. All of the claims of the ‘670 patent were held invalid. The Company appealed each of the final decisions to the United States Federal Circuit Court of Appeals. The Company appealed the unpatentability determinations including the decision of invalidity based on anticipation of several claims of the patents by prior art (the Paul reference”). The Company also appealed the decision

to review its patents under the provisions for CBMR and that the ‘516 patent lacked sufficient written description under § 112 to support the claims. Groupon appealed the Board’s decision that the patents were not valid under § 103 and the determination by the PTAB that the Ratismor reference was not publically available prior art.

On April 2, 2015, the District Court lifted the stay and required the parties to file a joint docket control order. On April 6, 2015, the Court set a Markman Hearing for June 29, 2015, and jury selection for December 14, 2015. On April 15, 2015, the parties filed their joint docket control order. The Court entered its docket control order on April 23, 2015. Due to an apparent scheduling conflict, the Court rescheduled the Markman Hearing to July 8, 2015.

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On April 22, 2015, the Company filed its third amended complaint against all defendants. The defendants timely answered on May 11, 2015. Each of the defendant's answers included a counterclaim for invalidity of the patents. The Company responded to these invalidity contentions on June 1, 2015.

On May 13, 2015, the Company filed a motion for entry of an order focusing patent claims and prior art. That motion requested that the Court narrow the number of claims at issue and the number of prior art references that defendants could use in an attempt to invalidate the Company's patents. On May 27, 2015, the Court held a hearing on the motion and ordered defendants to reduce the number of references in support of any invalidity contention against the patents.

On June 25, 2015, the Company attended mediation with Yelp in an effort to settle the case. That mediation was recessed to explore settlement options.

On July 8, 2015 the Company attended the Markman Hearing in order to construe the claims of the patents. On July 14, 2015, the Court entered its Memorandum Opinion and Order regarding claim construction. In that Order, the Court analyzed eleven claim terms. The Court agreed with Blue Calypso's proffered construction as to seven terms, chose its own construction as to three terms and agreed with defendants' proffered construction as to only one term. The Court also expressly rejected defendants' argument that the term "testimonial tag" was indefinite.

On July 13, 2015 the Court entered an order severing the non-active claims out of the case and consolidating claims regarding those patents into a separate set of cases. These new cases address the claims which were held invalid by the PTAB and which are now on appeal to the Federal Circuit Court of Appeals.

On July 14, 2015, the Company attended court-ordered mediation with Groupon. The result of that mediation was an impasse.

On July 16, 2015, the Company attended court-ordered mediation with IZEA. The parties reached a settlement.

On July 20, 2015, the Company attended court-ordered mediation with Foursquare. The result of that mediation was an impasse.

As part of the Company's settlement with Living Social, the Company's attorney is entitled to additional compensation for the value of certain non-monetary arrangements.

On August 17, 2015, the Company entered into a settlement agreement with IZEA, pursuant to which it settled all outstanding litigation with IZEA. Under the Agreement, IZEA has agreed to pay the Company a royalty fee of 4.125% of revenue from IZEA's discontinued legacy platforms SocialSpark, Sponsored Tweets and WeReward. The remaining terms of the settlement are confidential. Legal costs due to our attorneys associated with the IZEA settlement are classified as a settlement payable on our consolidated balance sheet.

On September 21, 2015, the Company entered into a settlement agreement with Yelp, pursuant to which all outstanding litigation with Yelp was settled. Under the agreement, Yelp has agreed to purchase 4,000 KIOSentrix beacons.

On March 1, 2016, the Federal Circuit overturned the PTAB decision as to insufficient written description but upheld the decision that the Ratismore reference was not publically available prior art. However, the Federal Circuit

confirmed the Board's decision to institute the CBMR process on the basis that Blue Calypso's patent portfolio qualified as a business method patent which was financial in nature. The Federal Circuit also upheld the decision of invalidity based on anticipation of several claims of the patents by the prior art Paul reference.

The Company has an option to pursue an en banc review of the holding with respect to anticipation by the Paul reference. An en banc review would occur before a panel of eight judges of the Federal Circuit as compared to the recently completed appeals process which utilized three. We also have the option of requesting that the Supreme Court review the Federal Circuit's decision. These options for appeal must be filed within 30 and 90 days respectively from the date of the March 1, 2016 decision.

The reversal of the written description matter is significant as it re-establishes the '516 parent patent issue date of February 2010 as the date that damages begin to accrue. Prior to this reversal the first date of infringement was relegated to the later issue date of the '679 patent on April 2012.

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments arising in the ordinary course of business. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and we accrue for adverse outcomes as they become probable and estimable.

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NOTE 11 – INCOME TAXES

The tax effects of temporary differences that give rise to deferred tax assets are presented below:

	For The Years Ended December 31,	
Deferred Tax Assets:	2015	2014
Net operating loss carryforward	$4,853,854	$4,447,768
Stock-based compensation	2,403,765	2,205,340
Accounts receivable	14,501	-
Subsidiary investment	360,423	-
Total deferred tax assets	7,632,543	6,653,108
Deferred Tax Liabilities:		
Fixed assets	303	-
Software development costs	60,584	-
Total deferred tax liabilities	60,887	-
Deferred tax asset, net	7,571,656	6,653,108
Valuation allowance	(7,571,656)	(6,653,108)
Deferred tax asset, net of valuation allowance	$-	$-
Changes in valuation allowance	$918,548	$1,463,191

The income tax provision (benefit) consists of the following:

	For The Years Ended December 31,	
	2015	2014
Federal:		
Current	$ -	$ -
Deferred	(918,548)	(1,463,191)
State and local:		
Current	-	-
Deferred	-	-
	(918,548)	(1,463,191)
Change in valuation allowance	918,548	1,463,191
Income tax provision (benefit)	$ -	$ -

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A reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

	For The Years Ended December 31,			
	2015		2014	
Tax benefit at federal statutory rate	(34.0	)%	(34.0	)%
Other non-deductible compensation subject to SEC 162(M)	0.0	%	10.1	%
Permanent differences	6.2	%	5.0	%
Change in valuation allowance	27.8	%	18.9	%
Effective income tax rate	0	%	0	%

The Company assesses the likelihood that deferred tax assets will be realized. To the extent that realization is not likely, a valuation allowance is established. Based upon the Company's history of losses since inception, management believes that it is more likely than not that future benefits of deferred tax assets will not be realized.

At December 31, 2015 and 2014, the Company had $14,276,041 and $13,081,670, respectively, of federal net operating losses that may be available to offset future taxable income. The net operating loss carry forwards, if not utilized, will expire from 2031 to 2035 for federal purposes. In accordance with Section 382 of the Internal Revenue Code, the usage of the Company's net operating loss carry forwards are subject to annual limitations in the event of a greater than 50% ownership change.

The Company files income tax returns in the U.S. federal and Texas jurisdictions and is subject to examination by taxing authorities beginning with the year ended December 31, 2012.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent to December 31, 2015, in exchange for $300,000 in cash, the Company extinguished all of its outstanding convertible notes payable and associated accrued interest.

During March 2016, the Company pursuant to a Securities Purchase Agreement issued to certain accredited investors 470,591 shares of the Company's common stock and warrants to purchase an additional 117,648 shares of the Company's common stock for aggregate gross proceeds of $400,000. The warrants are exercisable at an exercise price of $1.25 per share for a term of five years. The exercise price and the number of shares issuable upon exercise of the warrants are subject to adjustment upon the occurrence of certain events, including stock dividends, stock splits, combinations and reclassifications of the Company's common stock. The Company paid the placement agent cash commissions equal to $10,000.

0pt;">
$
1,185.7

$
846.7

40
%

$
1,118.5

$
773.8

45
%
Client assets (end of period, in billions)

$
1,229.6

$
882.4

39
%

$
1,229.6

$
882.4

39
%
Percentage change during period

4
%

4
%

10
%

14
%

Net new assets (in billions)

$
19.8

$
22.0

(10
)%

$
68.4

$
60.2

14
%
Net new assets annualized growth rate

7

%

10
%

8
%

10
%

39

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Condensed Consolidated Statements of Income Data

The following table summarizes certain data from our Condensed Consolidated Statements of Income for analysis purposes (dollars in millions):

	Three months ended June 30,		% Change	Nine months ended June 30,		% Change
	2018	2017		2018	2017	
Revenues:						
Transaction-based revenues:						
Commissions and transaction fees	$490	$335	46 %	$1,487	$1,054	41 %
Asset-based revenues:						
Bank deposit account fees	387	286	35 %	1,149	800	44 %
Net interest revenue	332	175	90 %	916	480	91 %
Investment product fees	140	112	25 %	414	309	34 %
Total asset-based revenues	859	573	50 %	2,479	1,589	56 %
Other revenues	33	23	43 %	88	50	76 %
Net revenues	1,382	931	48 %	4,054	2,693	51 %
Operating expenses:						
Employee compensation and benefits	352	234	50 %	1,228	677	81 %
Clearing and execution costs	46	38	21 %	149	111	34 %
Communications	42	34	24 %	141	98	44 %
Occupancy and equipment costs	67	44	52 %	226	133	70 %
Depreciation and amortization	37	25	48 %	106	74	43 %
Amortization of acquired intangible assets	32	19	68 %	107	57	88 %
Professional services	70	67	4 %	230	178	29 %
Advertising	63	58	9 %	218	195	12 %
Other	42	18	133 %	286	65	340 %
Total operating expenses	751	537	40 %	2,691	1,588	69 %
Operating income	631	394	60 %	1,363	1,105	23 %
Other expense:						
Interest on borrowings	28	20	40 %	72	48	50 %
Loss on sale of investments	—	—	N/A	11	—	N/A
Other	—	1	(100)%	2	1	100 %
Total other expense	28	21	33 %	85	49	73 %
Pre-tax income	603	373	62 %	1,278	1,056	21 %
Provision for income taxes	152	142	7 %	259	395	(34)%
Net income	$451	$231	95 %	$1,019	$661	54 %
Other information:						
Effective income tax rate	25.2 %	38.1 %		20.3 %	37.4 %	
Average debt outstanding	$2,786	$2,321	20 %	$2,783	$1,939	44 %
Effective interest rate incurred on borrowings	3.94 %	3.47 %		3.46 %	3.33 %	

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Three-Month Periods Ended June 30, 2018 and 2017
Net Revenues
Net revenues increased 48% to $1.38 billion during the third quarter of fiscal 2018. For fiscal 2018, we expect net revenues to be in excess of $5.2 billion, which is the high end of our fiscal 2018 projection.
Commissions and transaction fees increased 46% to $490 million, primarily due to the addition of approximately 3.5 million funded accounts as a result of the Scottrade acquisition on September 18, 2017, partially offset by lower average commissions per trade for the third quarter of fiscal 2018 compared to the third quarter of the prior year. Total trades increased 56%, as average client trades per day increased 54% to 783,665 for the third quarter of fiscal 2018 compared to 510,358 for the third quarter of the prior year, and there was one more trading day during the third quarter of fiscal 2018. Order routing revenue increased 43% to $119 million due to higher trading volumes. Average commissions per trade decreased to $7.40 from $7.83, primarily due to a higher percentage of equity trades, which earn somewhat lower average commissions per trade.
Asset-based revenues, which consists of bank deposit account fees, net interest revenue and investment product fees, increased 50% to $859 million, primarily due to increases in average spread-based assets, net interest margin earned on spread-based assets and average market fee-based investment balances. The growth in average spread-based and market fee-based investment balances is primarily due to the Scottrade acquisition and our success in attracting net new client assets. Net interest margin increased 39 basis points to 1.94%, primarily due to the Federal Open Market Committee increasing the target range for the federal funds rate by 25 basis points (to between 1.00% and 1.25%) during the third quarter of fiscal 2017 and by 75 basis points (to between 1.75% to 2.00%) during the first nine months of fiscal 2018. The increase in net interest margin was also due to the impact of higher average client margin balances, which earn a larger net interest spread.
Bank deposit account fees increased 35% to $387 million, primarily due to a 26% increase in average client bank deposit account balances and an increase of 9 basis points in the average yield earned on the bank deposit account assets. The growth in the average bank deposit account balances is primarily due to the Scottrade acquisition and our success in attracting net new client assets. The average yield earned on bank deposit account assets increased primarily due to floating-rate investment balances within the IDA portfolio benefiting from the federal funds rate increases during fiscal 2017 and 2018, as described above, partially offset by higher interest rates paid to clients. For more information about the IDA agreement, please see Note 15 – Related Party Transactions under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.
Net interest revenue increased 90% to $332 million due to a 64% increase in average client margin balances, primarily due to the Scottrade acquisition, increases in the average yields earned on client margin balances, segregated cash and other cash and interest-earning investments as a result of the federal funds rate increases during fiscal 2017 and 2018, as described above, and a $21 million increase in net interest revenue from our securities borrowing/lending program. The increase in the average yield earned on client margin balances was also impacted by increases in the average interest rates charged on client margin balances following the federal funds rate increases.
Investment product fees increased 25% to $140 million, primarily due to a 36% increase in average market fee-based investment balances. The increase in market fee-based investment balances is primarily due to the Scottrade acquisition and growth in our advised solutions products.
Other revenues increased 43% to $33 million, primarily due to increases in fees related to processing corporate securities reorganizations, proxy services and other fee revenue associated with additional accounts and transaction processing volumes resulting from the Scottrade acquisition.
Operating Expenses
Total operating expenses, which includes $46 million of acquisition-related expenses, increased 40% to $751 million during the third quarter of fiscal 2018. For the fourth quarter of fiscal 2018, we expect total operating expenses to remain consistent with the third quarter of fiscal 2018. We expect total operating expenses to be approximately $3.46 billion for fiscal 2018 and decrease to approximately $2.80 billion before growth for fiscal 2019, primarily due to expected declines in acquisition costs, intangible amortization and bad debt expense, along with additional synergies from the Scottrade acquisition. We have historically targeted 2% to 4% organic growth, but more recently we have

targeted 4% to 8% growth, as increased net revenues have enabled investments in growth, capabilities and efficiencies. Total acquisition-related expenses for fiscal 2018 are expected to range from $400 million to $480 million. We have incurred $384 million of acquisition-related costs during the first nine months of fiscal 2018, and we expect to incur approximately $50 million during the fourth quarter of fiscal 2018.

Employee compensation and benefits increased 50% to $352 million, primarily due to an increase in average headcount related to the Scottrade acquisition and our strategic growth initiatives, as well as $29 million of severance costs related to the Scottrade integration. The average number of full-time equivalent employees increased to 9,156 for the third quarter of fiscal 2018 compared to 6,454 for the third quarter of the prior year.

Clearing and execution costs increased 21% to $46 million, primarily due to increased costs associated with additional accounts and transaction processing volumes resulting from the Scottrade acquisition.
Communications expense increased 24% to $42 million, primarily due to the Scottrade acquisition, resulting in increased costs for quotes and market information associated with additional accounts and transaction processing volumes and costs for telecommunications.
Occupancy and equipment costs increased 52% to $67 million, primarily due to additional costs associated with the Scottrade business, including increased expenses related to leased facilities, software maintenance and software licensing.
Depreciation and amortization increased 48% to $37 million, primarily due to depreciation on assets recorded in the Scottrade acquisition, placing our new Southlake, Texas operations center in service during December 2017, and recent technology infrastructure upgrades.
Amortization of acquired intangible assets increased 68% to $32 million, primarily due to amortization of client relationships and trade name intangible assets recorded in the Scottrade acquisition.
Professional services increased 4% to $70 million, primarily due to higher usage of consulting and contract services related to operational and technology-related initiatives and in connection with the Scottrade integration, partially offset by lower costs associated with legal matters.
Advertising expense increased 9% to $63 million for the third quarter of fiscal 2018. We generally adjust our level of advertising spending in relation to stock market activity and other market conditions in an effort to maximize the number of new accounts while minimizing the advertising cost per new account. We expect advertising expense to increase by $10 million to $15 million during the fourth quarter of fiscal 2018 compared to the third quarter of fiscal 2018.
Other operating expenses increased 133% to $42 million, primarily due to $13 million of costs related to the Scottrade integration, mainly comprised of contract terminations and additional expenses associated with the Scottrade business.
Other Expense and Income Taxes
Interest on borrowings increased 40% to $28 million, primarily due to a 20% increase in average debt outstanding and an increase of 47 basis points in the average effective interest rate on our debt. On April 27, 2017, we issued $800 million of 3.300% Senior Notes due April 1, 2027 to finance a portion of the cash consideration paid in connection with the Scottrade acquisition.
Our effective income tax rate was 25.2% for the third quarter of fiscal 2018, compared to 38.1% for the third quarter of the prior year. The effective income tax rate for the third quarter of fiscal 2018 included an estimated net favorable adjustment of $2 million related to the remeasurement of the Company's deferred income tax balances as it pertains to the Tax Cuts and Jobs Act, a $1 million income tax benefit resulting from the change in accounting for income taxes related to equity-based compensation under ASU 2016-09 and a $9 million favorable benefit resulting from selectively accelerating certain deductions, including acquisition-related exit costs, to leverage higher 2017 pre-enactment tax rates. These items had a favorable impact on our earnings for the third quarter of fiscal 2018 of approximately $0.02 per share.
The Tax Cuts and Jobs Act was enacted on December 22, 2017, reducing the U.S. federal corporate income tax rate from 35% to 21%, requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creating new taxes on certain foreign sourced earnings. For more information, see Note 7 – Income Taxes under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements. As a result of the Act, we estimate our effective income tax rate to range between 24% to 25% for the remainder of fiscal 2018, excluding the effect of any adjustments related to remeasurement or resolution of uncertain tax positions and federal incentives. This estimate is based on a forecast of income through September 30, 2018 and is subject to change based on actual results. Additionally, we expect to experience some volatility in our quarterly and annual effective income tax rate because current accounting rules for uncertain tax positions require that any change in measurement of a tax position taken in a prior tax year be recognized as a discrete event in the period in which the change occurs. We also anticipate the potential for increased volatility in our future quarterly effective income tax rate from the accounting for income taxes related to equity-based compensation, which requires the income tax effects of exercised

or vested stock-based awards to be treated as discrete items in the period in which they occur.

Nine-Month Periods Ended June 30, 2018 and 2017

Net Revenues

Commissions and transaction fees increased 41% to $1.49 billion, primarily due to the addition of approximately 3.5 million funded accounts as a result of the Scottrade acquisition on September 18, 2017, partially offset by lower average commissions per trade for the first nine months of fiscal 2018 compared to the first nine months of the prior year. Average client trades per day increased 62% to 816,445 for the first nine months of fiscal 2018 compared to 504,700 for the first nine months of the prior year. Order routing revenue increased 39% to $341 million due to higher trading volumes. Average commissions per trade decreased to $7.48

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from $8.55, primarily due to our reduction in client pricing for online equity and option trades during the second quarter of fiscal 2017 and a higher percentage of equity trades, which earn somewhat lower average commissions per trade.

Asset-based revenues increased 56% to $2.48 billion for the first nine months of fiscal 2018, primarily due to increases in average spread-based assets, net interest margin earned on spread-based assets and average market fee-based investment balances. The growth in average spread-based and market fee-based investment balances is primarily due to the Scottrade acquisition and our success in attracting net new client assets. Net interest margin increased 40 basis points to 1.83% during the first nine months of fiscal 2018, primarily due to the Federal Open Market Committee increasing the target range for the federal funds rate by 75 basis points (to between 1.00% and 1.25%) during fiscal 2017 and by 75 basis points (to between 1.75% to 2.00%) during the first nine months of fiscal 2018. The increase in net interest margin was also due to the impact of higher average client margin balances, which earn a larger net interest spread.

Bank deposit account fees increased 44% to $1.15 billion, primarily due to a 26% increase in average client bank deposit account balances and an increase of 15 basis points in the average yield earned on the bank deposit account assets. The growth in the average bank deposit account balances is primarily due to the Scottrade acquisition and our success in attracting net new client assets. The average yield earned on bank deposit account assets increased primarily due to floating-rate investment balances within the IDA portfolio benefiting from the federal funds rate increases during fiscal 2017 and 2018, as described above, partially offset by higher interest rates paid to clients.

Net interest revenue increased 91% to $916 million due to a 58% increase in average client margin balances, primarily due to the Scottrade acquisition, increases in the average yields earned on client margin balances, segregated cash and other cash and interest-earning investments as a result of the federal funds rate increases during fiscal 2017 and 2018, as described above, and a $69 million increase in net interest revenue from our securities borrowing/lending program. The increase in the average yield earned on client margin balances was also impacted by increases in the average interest rates charged on client margin balances following the federal funds rate increases.

Investment product fees increased 34% to $414 million, primarily due to a 37% increase in average market fee-based investment balances. The increase in market fee-based investment balances is primarily due to the Scottrade acquisition and growth in our advised solutions products.

Other revenues increased 76% to $88 million, primarily due to favorable fair market value adjustments on investments held by our broker-dealer subsidiaries and increases in fees related to proxy services, processing corporate securities reorganizations and other fee revenue associated with additional accounts and transaction processing volumes resulting from the Scottrade acquisition.

Operating Expenses

Total operating expenses, which includes $384 million of acquisition-related expenses, increased 69% to $2.69 billion during the first nine months of fiscal 2018.

Employee compensation and benefits increased 81% to $1.23 billion, primarily due to $207 million of severance and other employment benefits related to the Scottrade integration and an increase in average headcount related to the Scottrade acquisition and our strategic growth initiatives. The average number of full-time equivalent employees increased to 9,912 for the first nine months of fiscal 2018 compared to 6,277 for the first nine months of the prior year.

Clearing and execution costs increased 34% to $149 million, primarily due to increased costs associated with additional accounts and transaction processing volumes resulting from the Scottrade acquisition.

Communications expense increased 44% to $141 million, primarily due to the Scottrade acquisition, resulting in increased costs for quotes and market information associated with additional accounts and transaction processing volumes and costs for telecommunications.

Occupancy and equipment costs increased 70% to $226 million, primarily due to additional costs associated with the Scottrade business, including increased expenses related to leased facilities, software maintenance and software licensing.

Depreciation and amortization increased 43% to $106 million, primarily due to depreciation on assets recorded in the Scottrade acquisition, placing our new Southlake, Texas operations center in service during December 2017, and recent technology infrastructure upgrades.
Amortization of acquired intangible assets increased 88% to $107 million, primarily due to amortization of client relationships and trade name intangible assets recorded in the Scottrade acquisition.
Professional services increased 29% to $230 million, primarily due to higher usage of consulting and contract services related to operational and technology-related initiatives and in connection with the Scottrade integration, partially offset by lower costs associated with legal matters.

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Advertising expense increased 12% to $218 million, primarily due to the Scottrade acquisition and due to increased advertising during professional and collegiate sporting events.
Other operating expenses increased 340% to $286 million, primarily due to $138 million of costs related to the Scottrade integration, mainly comprised of contract terminations, an increase in the provision for bad debt of $58 million related to market volatility during February 2018 and additional expenses associated with the Scottrade business.

Other Expense and Income Taxes

Interest on borrowings increased 50% to $72 million, primarily due to a 44% increase in average debt outstanding. On April 27, 2017, we issued $800 million of 3.300% Senior Notes due April 1, 2027 to finance a portion of the cash consideration paid in connection with the Scottrade acquisition.
Our effective income tax rate was 20.3% for the first nine months of fiscal 2018, compared to 37.4% for the first nine months of the prior year. The effective income tax rate for the first nine months of fiscal 2018 included an estimated net favorable adjustment of $71 million related to the remeasurement of the Company's deferred income tax balances as it pertains to the Act, a $5 million income tax benefit resulting from the change in accounting for income taxes related to equity-based compensation under ASU 2016-09, $10 million of favorable resolutions of state income tax matters and a $21 million favorable benefit resulting from selectively accelerating certain deductions, including acquisition-related exit costs, to leverage higher 2017 pre-enactment tax rates. The effective income tax rate was also impacted by a $9 million unfavorable remeasurement of uncertain tax positions related to certain federal incentives. These items had a net favorable impact on our earnings for the first nine months of fiscal 2018 of approximately $0.17 per share. The effective income tax rate for the first nine months of the prior year included $7 million of net favorable resolutions of state income tax matters and $3 million of favorable tax benefits for federal incentives. These items had a net favorable impact our earnings for the first nine months of the prior year of approximately $0.02 per share.

Liquidity and Capital Resources

We have established liquidity and capital policies to support the successful execution of business strategies, while ensuring ongoing and sufficient liquidity to meet operational needs and satisfy applicable regulatory requirements under both normal and stressed conditions. Our liquidity management policies are designed to mitigate the potential risk that we may be unable to meet current and future cash flow needs. Management of our liquidity is primarily comprised of (a) daily monitoring of our cash flow needs at the holding company, TD Ameritrade Holding Corporation (the "Parent"), and operating subsidiary level, and (b) performing periodic liquidity stress testing related to market and company-specific liquidity stress events in order to identify and plan for liquidity risk exposures.
We have historically financed our liquidity and capital needs primarily through the use of funds generated from subsidiary operations and from short-term borrowings. We have also issued common stock and long-term debt to finance mergers and acquisitions and for other corporate purposes. Our liquidity needs during the first nine months of fiscal 2018 were financed primarily from our subsidiaries' earnings, cash on hand and short-term borrowings. During the first nine months of fiscal 2018, we experienced increased liquidity needs at our clearing broker-dealer subsidiaries due to an increase in market volatility and in order to support regulatory and working capital requirements associated with the integration and migration of client accounts from the Scottrade platform to the Company's platform. We plan to finance both our ordinary and integration-related capital and liquidity needs during the remainder of fiscal 2018 primarily from our subsidiaries' earnings, cash on hand and short-term borrowings.

Parent Company

The Parent conducts substantially all of its business through its operating subsidiaries, principally its broker-dealer and futures commission merchant ("FCM")/forex dealer member ("FDM") subsidiaries. Dividends from our subsidiaries are an important source of liquidity for the Parent. Some of our subsidiaries are subject to requirements of the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), the Commodity Futures Trading Commission ("CFTC"), the National Futures Association ("NFA") and other regulators relating to liquidity, capital standards and the use of client funds and securities, which may limit funds available for the payment of dividends to the Parent.

The Parent may make loans of cash or securities under committed and/or uncommitted lines of credit with each of its primary broker-dealer and FCM/FDM subsidiaries in order to provide liquidity. Liquidity could be used to fund increases in our subsidiaries' deposit requirements with clearinghouses, and to provide operating liquidity for client trading and investing activity in the normal course of business and during times of market volatility. Committed facilities of $255 million and uncommitted facilities of $600 million under the Parent's intercompany credit agreements were available to its primary broker-dealer and FCM/FDM subsidiaries as of June 30, 2018. For more information about these credit agreements, see "Long-term Debt and Other Borrowings — Intercompany Credit Agreements" later in this section.

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Broker-dealer and Futures Commission Merchant/Forex Dealer Member Subsidiaries

Our broker-dealer and FCM/FDM subsidiaries are subject to regulatory requirements that are intended to ensure their liquidity and general financial soundness. Under the SEC's Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934, or the "Exchange Act"), our broker-dealer subsidiaries are required to maintain, at all times, at least the minimum level of net capital required under Rule 15c3-1. For our clearing broker-dealer subsidiaries, the minimum net capital level is determined by a calculation described in Rule 15c3-1 that is primarily based on the broker-dealers' "aggregate debits," which primarily consist of client margin balances at the clearing broker-dealers. Since our aggregate debits may fluctuate significantly, our minimum net capital requirements may also fluctuate significantly from period to period. The Parent may make cash capital contributions to our broker-dealer and FCM/FDM subsidiaries, if necessary, to meet minimum net capital requirements.

Each of our broker-dealer subsidiaries may not repay any subordinated borrowings, pay cash dividends or make any unsecured advances or loans to its parent company or employees if such payment would result in a net capital amount of less than (a) 5% of aggregate debit balances or (b) 120% of its minimum dollar requirement. TD Ameritrade Futures & Forex LLC ("TDAFF"), our FCM and FDM subsidiary, must provide notice to the CFTC if its adjusted net capital amounts to less than (a) 110% of its risk-based capital requirement under CFTC Regulation 1.17, (b) 150% of its $1.0 million minimum dollar requirement, or (c) 110% of $20.0 million plus 5% of all liabilities owed to forex clients in excess of $10.0 million. These broker-dealer, FCM and FDM net capital thresholds, which are specified in Rule 17a-11 under the Exchange Act and CFTC Regulations 1.12 and 5.6, are typically referred to as "early warning" net capital thresholds.

The following tables summarize our broker-dealer and FCM/FDM subsidiaries' net capital and adjusted net capital, respectively, as of June 30, 2018 (dollars in millions):

	Net Capital	Early Warning Threshold	Net Capital in Excess of Early Warning Threshold
TD Ameritrade Clearing, Inc.	$ 2,527	$ 1,283	$ 1,244
TD Ameritrade, Inc.	$ 193	$ 0.3	$ 193
Scottrade, Inc. [1]	$ 46	$ 0.3	$ 45

(1) On February 26, 2018, Scottrade, Inc. transferred substantially all of its broker-dealer business, including its clearing operations, to other subsidiaries of the Company.

	Adjusted Net Capital	Early Warning Threshold	Adjusted Net Capital in Excess of Early Warning Threshold
TD Ameritrade Futures & Forex LLC	$ 124	$ 25	$ 99

Our clearing broker-dealer subsidiaries, TD Ameritrade Clearing, Inc. ("TDAC") and Scottrade, Inc. ("STI") (prior to transferring substantially all of its broker-dealer business to other subsidiaries of the Company on February 26, 2018), engage in activities such as settling client securities transactions with clearinghouses, extending credit to clients through margin lending, securities lending and borrowing transactions and processing client cash sweep transactions to and from bank deposit accounts and money market mutual funds. These types of broker-dealer activities require active daily liquidity management.

Most of our clearing broker-dealer subsidiaries' assets are readily convertible to cash, consisting primarily of cash and investments segregated for the exclusive benefit of clients, receivables from clients and receivables from brokers, dealers and clearing organizations. Cash and investments segregated for the exclusive benefit of clients may be held in cash, reverse repurchase agreements (collateralized by U.S. Treasury securities), U.S. Treasury securities, U.S. government agency mortgage-backed securities and other qualified securities. Receivables from clients consist of margin loans, which are demand loan obligations secured by readily marketable securities. Receivables from brokers, dealers and clearing organizations primarily arise from current open transactions, which usually settle or can be settled within a few business days.

Our clearing broker-dealer subsidiaries are subject to cash deposit and collateral requirements with clearinghouses such as the Depository Trust & Clearing Corporation ("DTCC") and the OCC, which may fluctuate significantly from time to time based on the nature and size of our clients' trading activity.

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The following table sets forth our clearing broker-dealer subsidiaries' cash and investments deposited with clearing organizations for the clearing of client equity and option trades (dollars in millions):

	June 30, 2018	September 30, 2017
TD Ameritrade Clearing, Inc.	$ 745	$ 476
Scottrade, Inc.	$ 9	$ 73

Liquidity needs for our clearing broker-dealer subsidiaries relating to client trading and margin borrowing are met primarily through cash balances in client brokerage accounts and through lending and pledging of client margin securities. Cash balances in client brokerage accounts not used for client trading and margin borrowing activity are not generally available for other liquidity purposes and must be segregated for the exclusive benefit of clients under Rule 15c3-3 of the Exchange Act.

Cash balances in client brokerage accounts are summarized in the following table (dollars in millions):

	June 30, 2018	September 30, 2017
TD Ameritrade Clearing, Inc.	$22,121	$ 18,501
Scottrade, Inc.	$—	$ 6,193

Cash and investments segregated in special reserve bank accounts for the exclusive benefit of clients under Rule 15c3-3 are summarized in the following table (dollars in millions):

	June 30, 2018	September 30, 2017
TD Ameritrade Clearing, Inc.	$ 4,265	$ 6,447
Scottrade, Inc.	$ 10	$ 3,658

For general liquidity needs, TDAC currently maintains two senior unsecured committed revolving credit facilities with an aggregate principal amount of $1.45 billion. TDAC also utilizes secured uncommitted lines of credit for short-term liquidity needs. These facilities are described under "Long-term Debt and Other Borrowings" later in this section.

In addition, we have established intercompany credit agreements under which the broker-dealer and FCM/FDM subsidiaries may borrow from the Parent. The Parent's intercompany credit agreements with TDAC provides for committed revolving loan facilities of $400 million and an uncommitted revolving loan facility of $300 million. The intercompany credit agreements are described under "Long-term Debt and Other Borrowings – Intercompany Credit Agreements" later in this section.

Liquid Assets

Liquid assets is a non-GAAP financial measure. We include the excess capital of our regulated subsidiaries in the calculation of liquid assets, rather than simply including the 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 below, is generally available for dividend from the regulated subsidiaries to the parent company. Liquid assets should be considered as a supplemental measure of liquidity, rather than as a substitute for GAAP cash and cash equivalents.

We define liquid assets 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 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. In June 2018, the presentation of the liquid assets metric was revised in order to provide a consolidated view of our liquidity, which management may utilize, as necessary, to meet corporate cash flow needs, fund potential operational contingencies and support our business strategies. The prior period, which provided a view of our liquidity net of operational contingencies and other obligations, has been updated to conform to the current presentation.

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The following table sets forth a reconciliation of cash and cash equivalents, which is the most directly comparable GAAP measure, to liquid assets (dollars in millions):

	June 30, 2018	Sept. 30, 2017	Change
Cash and cash equivalents - GAAP	$1,343	$1,472	$(129)
Less: Non-corporate cash and cash equivalents	(1,044)	(1,174)	130
Corporate cash and cash equivalents	299	298	1
Corporate investments	388	714	(326)
Excess regulatory net capital over management targets	166	46	120
Liquid assets - non-GAAP	$853	$1,058	$(205)

The changes in liquid assets are summarized as follows (dollars in millions):

Liquid assets as of September 30, 2017	$1,058
Plus: EBITDA[(1)]	1,563
Change in net capital related to daily futures client cash sweep	17
Proceeds from sale of property and equipment	12
Less: Payment of cash dividends	(357)
Corporate capital contribution to regulated subsidiary, not included in excess regulatory net capital over management targets	(300)
Other changes in working capital and regulatory net capital	(300)
Income taxes paid	(278)
Net increase in borrowings under intercompany credit agreements	(175)
Purchase of property and equipment	(166)
Net increase in cash collateral pledged to interest rate swap counterparties	(113)
Interest paid	(88)
Purchase of treasury stock for income tax withholding on stock-based compensation	(16)
Cash paid in business acquisition	(4)
Liquid assets as of June 30, 2018	$853

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

Long-term Debt and Other Borrowings

The following is a summary of our long-term debt and other borrowings. For additional details, see Note 8 – Long-term Debt and Other Borrowings under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

Senior Notes – Our unsecured, fixed-rate Senior Notes were each sold through a public offering and pay interest semi-annually in arrears. Key information about the Senior Notes outstanding is summarized in the following table (dollars in millions):

Description	Date Issued	Maturity Date	Aggregate Principal	Interest Rate
2019 Notes	November 25, 2009	December 1, 2019	$500	5.600%
2022 Notes	March 4, 2015	April 1, 2022	$750	2.950%
2025 Notes	October 17, 2014	April 1, 2025	$500	3.625%
2027 Notes	April 27, 2017	April 1, 2027	$800	3.300%

Fair Value Hedging – We are exposed to changes in the fair value of our fixed-rate Senior Notes resulting from interest rate fluctuations. To hedge this exposure, we entered into fixed-for-variable interest rate swaps on each of the Senior Notes. Each fixed-for-variable interest rate swap has a notional amount and a maturity date matching the aggregate principal amount and maturity date, respectively, for each of the respective Senior Notes.

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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, we receive semi-annual fixed-rate interest payments based on the same rates applicable to the Senior Notes, and make quarterly variable-rate interest payments based on three-month LIBOR plus (a) 2.3745% for the swap on the 2019 Notes, (b) 0.9486% for the swap on the 2022 Notes, (c) 1.1022% for the swap on the 2025 Notes and (d) 1.0340% for the swap on the 2027 Notes. As of June 30, 2018, the weighted average effective interest rate on the aggregate principal balance of the Senior Notes was 3.59%.
Lines of Credit – TDAC utilizes secured uncommitted lines of credit for short-term liquidity. Under the secured uncommitted lines, TDAC borrows on a demand basis from three unaffiliated banks and pledges client margin securities as collateral. Advances under the secured uncommitted lines are dependent on having appropriate collateral as determined by each secured uncommitted credit agreement. At June 30, 2018, borrowings are limited to $200 million under one of the secured uncommitted credit agreements and the terms of the other two secured uncommitted credit agreements do not specify borrowing limits. The availability of TDAC's secured uncommitted lines is subject to approval by the individual banks each time an advance is requested and may be denied. In addition, the Parent has a secured uncommitted line of credit agreement with one unaffiliated bank, which limits its borrowings up to $100 million on a demand basis. There were no borrowings outstanding under the secured uncommitted lines of credit as of June 30, 2018.
Securities Sold Under Agreements to Repurchase (repurchase agreements) – Our repurchase agreements generally mature between 30 and 90 days following the transaction date and are accounted for as secured borrowings. Under repurchase agreements, we receive cash from the counterparty and provide U.S. government debt securities as collateral. The weighted average interest rate on the $97 million outstanding repurchase agreement balances as of June 30, 2018 was 2.15%.
TD Ameritrade Holding Corporation Senior Revolving Credit Facility – The Parent has access to a senior unsecured committed revolving credit facility in the aggregate principal amount of $300 million (the "Parent Revolving Facility"). The maturity date of the Parent Revolving Facility is April 21, 2022. There were no borrowings outstanding under the Parent Revolving Facility as of June 30, 2018.
TD Ameritrade Clearing, Inc. Senior Revolving Credit Facilities – TDAC has access to two senior unsecured committed revolving credit facilities with an aggregate principal amount of $1.45 billion, consisting of a $600 million (the "$600 Million Revolving Facility") and an $850 million (the "$850 Million Revolving Facility") senior revolving facility. The maturity dates of the $600 Million Revolving Facility and the $850 Million Revolving Facility are April 21, 2022 and May 16, 2019, respectively. There were no borrowings outstanding under the TDAC senior revolving facilities as of June 30, 2018.
Intercompany Credit Agreements – The Parent has entered into credit agreements with each of its primary broker-dealer and FCM/FDM subsidiaries, under which the Parent may make loans of cash or securities under committed and/or uncommitted lines of credit. The current committed and/or uncommitted lines of credit are summarized in the table below (dollars in millions):

Borrower Subsidiary	Committed Facility	Uncommitted Facility[1]	Termination Date
TD Ameritrade Clearing, Inc.	$400	$300	March 1, 2022
TD Ameritrade, Inc.	N/A	$300	March 1, 2022
TD Ameritrade Futures & Forex LLC	$30	N/A	August 11, 2021

(1) The Parent is permitted, but under no obligation, to make loans under uncommitted facilities.
There was $175 million of borrowings outstanding under the intercompany credit agreements as of June 30, 2018.
Stock Repurchase Program
On November 20, 2015, our board of directors authorized the repurchase of up to 30 million shares of our common stock. As of June 30, 2018, we had approximately 26 million shares remaining under this stock repurchase authorization.
Cash Dividends

We declared a $0.21 per share quarterly cash dividend on our common stock each quarter of fiscal 2018. We paid $357 million in cash dividends during the first nine months of fiscal 2018. We will pay the fourth quarter dividend of $0.21 per share on August 21, 2018 to all shareholders of record as of August 7, 2018.

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Contractual Obligations

The following item constitutes a material change in our contractual obligations outside the ordinary course of business since September 30, 2017:

During the first nine months of fiscal 2018, we accelerated and paid approximately $51 million of future purchase obligations. These purchase obligations were originally expected to be paid during fiscal years 2019 through 2027 and consisted of early contract termination costs associated with the Scottrade integration.

Off-Balance Sheet Arrangements

We enter into guarantees and other off-balance sheet arrangements in the ordinary course of business, primarily to meet the needs of our clients and to manage our asset-based revenues. For information on these arrangements, see the following sections under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements: "General Contingencies" and "Guarantees" in Note 10 – Commitments and Contingencies and "Insured Deposit Account Agreement" in Note 15 – Related Party Transactions. Bank deposit account fees, generated from the IDA agreement and other sweep arrangements with non-affiliated third-party depository financial institutions, account for a significant percentage of our net revenues (28% of our net revenues for the first nine months of fiscal 2018). These sweep arrangements enable our clients to invest in FDIC-insured (up to specified limits) deposit products without the need for the Company to establish the significant levels of capital that would be required to maintain our own bank charter.

Websites and Social Media Disclosure

From time to time, the Company may use its website and/or Twitter as distribution channels of material information. The Company's Code of Business Conduct and Ethics, financial data and other important information regarding the Company is routinely accessible through and posted on the Company's website at www.amtd.com and its Twitter account @TDAmeritradePR. We ask that interested parties visit or subscribe to newsfeeds at www.amtd.com/newsroom to automatically receive email alerts and other information, including the most up-to-date corporate financial information, presentation announcements, transcripts and archives. The website to access the Company's Twitter account is https://twitter.com/TDAmeritradePR. Website links provided in this report, although correct when published, may change in the future. We make available free of charge on our website at www.amtd.com/investor-relations/sec-filings/ our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after we electronically file such material with or furnish it to the SEC. Our SEC filings are also available on the SEC's website at http://www.sec.gov/.

Item 3. – Quantitative and Qualitative Disclosures About Market Risk

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and market prices. We have established policies, procedures and internal processes governing our management of market risks in the normal course of our business operations.

Market-related Credit Risk

Two primary sources of credit risk inherent in our business are (1) client credit risk related to margin lending and leverage and (2) counterparty credit risk related to securities lending and borrowing. We manage risk on client margin lending and leverage by requiring clients to maintain margin collateral in compliance with regulatory and internal guidelines. The risks associated with margin lending and leverage increase during periods of rapid market movements, or in cases where leverage or collateral is concentrated and market movements occur. We monitor required margin levels daily and, pursuant to such guidelines, require our clients to deposit additional collateral, or to reduce positions, when necessary. We continuously monitor client accounts to detect excessive concentration, large orders or positions, patterns of day trading and other activities that indicate increased risk to us. We manage risks associated with our securities lending and borrowing activities by requiring credit approvals for counterparties, by monitoring the market value of securities loaned and collateral values for securities borrowed on a daily basis and requiring additional cash as collateral for securities loaned or return of collateral for securities borrowed when necessary, and by participating in a risk-sharing program offered through the Options Clearing Corporation.

We are party to interest rate swaps related to our long-term debt, which are subject to counterparty credit risk. Credit risk on derivative financial instruments is managed by limiting activity to approved counterparties that meet a minimum credit rating threshold and by entering into credit support agreements, or by utilizing approved central clearing counterparties registered with the Commodity Futures Trading Commission. Our interest rate swaps require daily collateral coverage, in the form of cash or U.S. Treasury securities, for the aggregate fair value of the interest rate swaps.

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Interest Rate Risk

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

Our most prevalent form of interest rate risk is referred to as "gap" risk. Gap risk occurs when the interest rates we earn on assets change at a different frequency or amount than the interest rates we pay on liabilities. For example, in the current low interest rate environment, sharp increases in short-term interest rates could result in net interest spread compression if the yields paid on interest-bearing client balances were to increase faster than our earnings on interest-earning assets. We seek to mitigate interest rate risk by aligning the average duration of interest-earning assets with that of interest-bearing liabilities. As of June 30, 2018, our consolidated duration was 2.0 years. We have an Asset/Liability Committee as the governance body with the responsibility of managing interest rate risk, including gap risk.

We use net interest simulation modeling techniques to evaluate the effect that changes in interest rates might have on pre-tax income. Our model includes all interest-sensitive assets and liabilities of the Company and interest-sensitive assets and liabilities associated with bank deposit account arrangements. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely predict the impact that changes in interest rates will have on pre-tax income. Actual results may differ from simulated results due to differences in timing and frequency of rate changes, changes in market conditions and changes in management strategy that lead to changes in the mix of interest-sensitive assets and liabilities.

The simulations assume that the asset and liability structure of our Condensed Consolidated Balance Sheet and client bank deposit account balances would not be changed as a result of a simulated change in interest rates. The results of the simulations based on our financial position as of June 30, 2018 indicate that a gradual 1% (100 basis points) increase in interest rates over a 12-month period would result in a range of approximately $80 million to $175 million higher pre-tax income and a gradual 1% (100 basis points) decrease in interest rates over a 12-month period would result in a range of approximately $165 million to $190 million lower pre-tax income, depending largely on the extent and timing of possible increases in payment rates on client cash balances and interest rates charged on client margin balances.

Other Market Risks

Substantially all of our revenues and financial instruments are denominated in U.S. dollars. We generally do not enter into derivative transactions, except for hedging purposes.

Item 4. – Controls and Procedures

Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2018. Management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. – Legal Proceedings

For information regarding legal proceedings, see Note 10 – Commitments and Contingencies – "Legal and Regulatory Matters" under Item 1, Financial Statements – Notes to Condensed Consolidated Financial Statements.

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Item 1A. – Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Item 1A— "Risk Factors" in our annual report on Form 10-K for the year ended September 30, 2017, which could materially affect our business, financial condition or future results of operations. The risks described in our Form 10 K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

There have been no material changes from the risk factors disclosed in our Form 10-K for the fiscal year ended September 30, 2017.

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program
April 1, 2018 – April 30, 2018	47,052	$ 57.64	—	25,979,986
May 1, 2018 – May 31, 2018	7,952	$ 57.70	—	25,979,986
June 1, 2018 – June 30, 2018	635	$ 60.73	—	25,979,986
Total – Three months ended June 30, 2018	55,639	$ 57.68	—	25,979,986

On November 20, 2015, our board of directors authorized the repurchase of up to 30 million shares of our common stock. We disclosed this authorization on November 20, 2015 in our annual report on Form 10-K. This program was the only stock repurchase program in effect and no programs expired during the third quarter of fiscal 2018.

During the quarter ended June 30, 2018, 55,639 shares were repurchased from employees for income tax withholding in connection with distributions of stock-based compensation.

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Item 6. – Exhibits

2.1^	Agreement and Plan of Merger, dated as of October 24, 2016, by and among Scottrade Financial Services, Inc., Rodger O. Riney, as Voting Trustee of the Rodger O. Riney Family Voting Trust U/A/D 12/31/2012, TD Ameritrade Holding Corporation and Alto Acquisition Corp. (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed on October 28, 2016)
3.1	Amended and Restated Certificate of Incorporation of TD Ameritrade Holding Corporation, dated January 24, 2006 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on January 27, 2006)
3.2	Amended and Restated By-Laws of TD Ameritrade Holding Corporation, effective February 12, 2014 (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on February 19, 2014)
4.1	Form of Certificate for Common Stock (incorporated by reference to Exhibit 4.1 of the Company's Form 8-A filed on September 5, 2002)
4.2	First Supplemental Indenture, dated November 25, 2009, among TD Ameritrade Holding Corporation, TD Ameritrade Online Holdings Corp., as guarantor, and The Bank of New York Mellon Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on November 25, 2009)
4.3	Form of 5.600% Senior Note due 2019 (included in Exhibit 4.2)
4.4	Indenture, dated October 22, 2014, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on October 23, 2014)
4.5	Form of 3.625% Senior Note due 2025 (included in Exhibit 4.4)
4.6	Supplemental Indenture, dated October 22, 2014, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.3 of the Company's Form 8-K filed on October 23, 2014)
4.7	Second Supplemental Indenture, dated March 9, 2015, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on March 9, 2015)
4.8	Form of 2.950% Senior Note due 2022 (included in Exhibit 4.7)
4.9	Third Supplemental Indenture, dated April 27, 2017, between TD Ameritrade Holding Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on April 28, 2017)
4.10	Form of 3.300% Senior Note due 2027 (included in Exhibit 4.9)
10.1*	Insured Deposit Account Agreement, effective as of January 1, 2013, among TD Bank USA, N.A., TD Bank, N.A., The Toronto-Dominion Bank, TD Ameritrade, Inc., TD Ameritrade Clearing, Inc. and TD Ameritrade Trust Company

10.2	Credit Agreement, dated May 17, 2018, among TD Ameritrade Clearing, Inc., the lenders party thereto, Wells Fargo Securities, LLC, Barclays Bank PLC, Citibank, N.A., JPMorgan Chase Bank, N.A., U.S. Bank National Association and TD Securities (USA) LLC, as joint bookrunners and joint lead arrangers, and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 21, 2018)
10.3	First Amendment, dated May 17, 2018, to Credit Agreement, dated April 21, 2017, among TD Ameritrade Clearing, Inc., the lenders party thereto, U.S. Bank National Association, as syndication agent, Barclays Bank PLC, TD Securities (USA) LLC, Wells Fargo Securities, LLC, and Industrial and Commercial Bank of China Ltd., New York Branch, as co-documentation agents and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on May 21, 2018)
15.1	Awareness Letter of Independent Registered Public Accounting Firm
31.1	Certification of Tim Hockey, Principal Executive Officer, as required pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
31.2	Certification of Stephen J. Boyle, Principal Financial Officer, as required pursuant to Section 302 of the Sarbanes - Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema

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101.CAL XBRL Taxonomy Extension Calculation

101.LAB XBRL Taxonomy Extension Label

101.PRE XBRL Taxonomy Extension Presentation

101.DEF XBRL Taxonomy Extension Definition

^ Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule upon request.

* Confidential treatment has been requested with respect to the omitted portions of this Exhibit, which portions have been filed separately with the Securities and Exchange Commission.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 7, 2018

TD Ameritrade Holding Corporation
(Registrant)

By: /s/ TIM HOCKEY
Tim Hockey
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ STEPHEN J. BOYLE
Stephen J. Boyle
Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)