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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER
8-24760

FACING PAGE

Information Requested of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 10/01/2011 AND ENDING 09/30/2012  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Scottrade, Inc.**

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
**700 Maryville Centre Drive**

(No. and street)

**St. Louis**

(City)

**MO**

(State)

**63141**

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

**Ronald D. Wiese**

**314-965-1555**

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**Deloitte & Touche LLP**

(Name - if individual, state last, first, middle name)

**100 South 4th Street**

(Address)

**St. Louis**

(City)

**MO**

(State)

**63102**

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

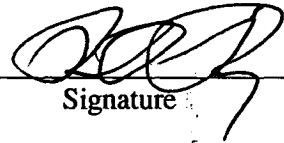
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**AFFIRMATION**

I, Rodger O. Riney, affirm that, to the best of my knowledge and belief the accompanying financial statements and supplemental schedules pertaining to Scotttrade, Inc. for the year ended September 30, 20 12, are true and correct. I further affirm that neither the Company nor any principal owner, officer or director has any proprietary interest in any account classified solely as that of a customer, except for the following:

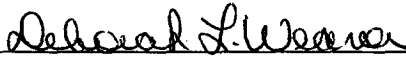
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Signature

President

Title



Notary Public

DEBORAH L. WEAVER  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Jefferson County  
My Commission Expires: September 29, 2015  
Commission Number: 11540071

**Deloitte.**

## Scottrade, Inc.

(A wholly owned subsidiary of  
Scottrade Financial Services, Inc.)

Balance Sheet as of September 30, 2012, and  
Independent Auditors' Report

# Scottrade, Inc.

(A wholly owned subsidiary of  
Scottrade Financial Services, Inc.)

Balance Sheet as of September 30, 2012, and  
Independent Auditors' Report

# SCOTTRADE, INC.

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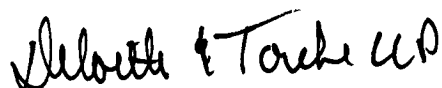
## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of Scottrade, Inc.  
St. Louis, Missouri

We have audited the accompanying balance sheet of Scottrade, Inc. (the "Company") as of September 30, 2012. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such balance sheet presents fairly, in all material respects, the financial position of Scottrade, Inc. at September 30, 2012, in conformity with accounting principles generally accepted in the United States of America.



November 28, 2012

# SCOTTRADE, INC.

## BALANCE SHEET AS OF SEPTEMBER 30, 2012 (Dollars in thousands)

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ASSETS:	
Cash and cash equivalents	\$ 20,874
Cash and securities segregated under federal and other regulations	4,905,471
Deposits with clearing organizations	25,575
Receivables from brokers and dealers and clearing organizations	20,929
Receivables from customers — net of allowance for doubtful accounts of \$3,250	1,992,108
Accrued interest receivable	6,140
Property and capitalized software, at cost, net of accumulated depreciation and amortization of \$163,612	81,712
Other assets	<u>59,110</u>
TOTAL	<u>\$7,111,919</u>
LIABILITIES:	
Payables to brokers and dealers and clearing organizations	\$ 17,862
Payables to customers	6,567,637
Note payable	14,048
Dividends and interest payable to customers	8,850
Other liabilities	<u>63,375</u>
Total liabilities	<u>6,671,772</u>
STOCKHOLDER'S EQUITY:	
Common stock — no par value:	
Class A, voting — authorized, 750 shares; issued, 166 shares; outstanding, 10 shares	373
Class B, non-voting — authorized, 7,500,000 shares; issued, 1,563,505 shares; outstanding, 0 shares	-
Retained earnings	499,277
Treasury stock — at cost:	
Class A — 156 shares	(6)
Class B — 1,563,505 shares	<u>(59,497)</u>
Total stockholder's equity	<u>440,147</u>
TOTAL	<u>\$7,111,919</u>

See notes to balance sheet.

# SCOTTRADE, INC.

## NOTES TO BALANCE SHEET AS OF SEPTEMBER 30, 2012

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### 1. DESCRIPTION OF BUSINESS

Established in 1980, Scottrade, Inc. (the “Company”) is an online brokerage firm that provides securities brokerage and investment services to self-directed investors and custodial, trading and support services to independent registered investment advisors. The Company is headquartered in St. Louis, Missouri and has over 500 branch offices across the United States. The Company is a wholly owned subsidiary of Scottrade Financial Services, Inc. (the “Parent”).

The Company determined there were no subsequent events that would require disclosure or adjustments to the accompanying balance sheet and footnotes through November 28, 2012, the date the balance sheet was available to be issued.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Financial Information** — The balance sheet of the Company is prepared in conformity with accounting principles generally accepted in the United States of America.

**Use of Estimates** — In preparing the balance sheet, management makes use of estimates concerning certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet. Therefore, actual results could differ from those estimates and could have a material impact on the balance sheet, and it is possible that such changes could occur in the near term.

**Fair Value of Financial Instruments** — The Company’s financial instruments are reported at fair values, or at carrying amounts that approximate fair values for those instruments with short-term maturities. The carrying amount of the Company’s note payable represents fair value because its fixed rate of interest approximates current rates available to the Company for debt with similar characteristics and maturities.

**Cash and Cash Equivalents** — Cash and cash equivalents consist of cash and highly liquid investments not held for segregation with original maturity dates of 90 days or less at the date of purchase.

**Securities Segregated** — The Company’s securities segregated under federal and other regulations are recorded on a trade date basis and carried at fair value. The Company invests in various debt securities, primarily U.S. government securities, in order to satisfy certain regulatory requirements (see Note 4). U.S. government securities, in general, are exposed to various risks, such as interest rate and overall market volatility. Due to the level of risk associated with these securities, it is reasonably possible that changes in the values of these securities could occur in the near term and that such changes could materially affect the amounts reported in the balance sheet.

**Securities Transactions** — Deposits paid for securities borrowed and deposits received for securities loaned are recorded at the amount of cash collateral advanced or received. Deposits paid for securities borrowed transactions require the Company to deposit cash with the lender. With respect to deposits received for securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of the securities loaned. The Company monitors the market value



of the securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary. The Company had no securities loaned transactions outstanding at September 30, 2012.

Customer securities transactions are recorded on settlement date. Receivables from and payables to customers include amounts related to both cash and margin transactions. Securities owned by customers are held as collateral for receivables. Such collateral is not reflected in the balance sheet.

**Receivables from/Payables to Customers** — Customer receivables, primarily consisting of floating-rate loans collateralized by customer-owned securities, are charged interest similar to other such loans made throughout the industry. Customer payables and deposits are short-term in nature and pay interest at a fluctuating rate.

**Property and Capitalized Software** — Property and equipment are carried at cost less accumulated depreciation and amortization. Land is recorded at cost. Depreciation for buildings is provided using the straight-line method over an estimated useful life of 30 or 39 years. Leasehold improvements are amortized over the lesser of the life of the lease or estimated useful life of the improvement. Furniture, fixtures and communications equipment are depreciated over three or five years using an accelerated method. Capitalized software costs, including fees paid for services provided to develop the software, costs incurred to obtain the software and licensing fees paid are amortized over three to five years. The costs of internally developed software that qualify for capitalization under internal-use software accounting guidance are included in capitalized software. Software development costs that do not meet capitalization criteria are expensed as incurred.

**Income Taxes** — The Company operates as a “qualified subchapter” S-Corp subsidiary such that the Company’s taxable income or losses and related taxes are the responsibility of the individual stockholders of the Parent. The Company does operate in certain states that do not recognize the S-Corp status, and therefore, records a liability for income taxes. As of September 30, 2012, the liability for income taxes was immaterial.

**Recent Accounting Standards** — In July 2010, the Financial Accounting Standards Board (“FASB”) amended the general accounting principles for *Receivables* as it relates to the disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires the disclosure of credit quality indicators, past due information, and modifications of financing receivables. For non-public entities, these disclosures are effective for annual reporting periods ending on or after December 15, 2011. Adoption of this amendment did not have a material impact on the Company’s balance sheet.

In May 2011, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to the measurement and disclosure requirements about fair value measurements. This amendment clarifies the FASB’s intent about the application of existing fair value measurement requirements. It also changes particular principles and requirements for measuring fair value and for disclosing information about fair value measurements. The amendment is effective for annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on its balance sheet.

In December 2011, the FASB amended the general accounting principles for *Balance Sheet* as it relates to disclosure guidance about offsetting assets and liabilities. The amended disclosure guidance will enable users of the financial statements to evaluate the effect or potential effect of netting agreements on the Company’s financial position. The amended disclosure guidance will be effective for annual and interim periods beginning on January 1, 2013, and will be applied retrospectively for all comparative

periods presented. The Company is currently evaluating the impact of this amendment on its balance sheet.

### 3. STOCK APPRECIATION RIGHTS

The Company applies the provisions of *Compensation*, to account for compensation expense attributable to stock appreciation rights granted to employees of the Company. The Company has elected to measure stock appreciation rights at intrinsic value, and re-measures its obligation at the end of each reporting period. Stock appreciation rights are based upon increases in the net book value of the Parent from the grant date. As they are settled only in cash payments by the Company upon completion of the service requirement, generally three years, stock appreciation rights are recorded as a liability.

As of September 30, 2012, the Company recorded a liability in other liabilities on the balance sheet of \$3.7 million relating to stock appreciation rights. As of September 30, 2012, there was \$0.4 million of unrecognized compensation cost related to non-vested stock appreciation rights. This cost is expected to be recognized over a weighted-average period of 0.3 years.

### 4. CASH AND SECURITIES SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS

At September 30, 2012, cash of \$2.4 billion and U.S. government obligations with a fair value of \$2.5 billion have been segregated in a special reserve bank account for the exclusive benefit of customers pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934.

### 5. RECEIVABLES FROM AND PAYABLES TO BROKERS AND DEALERS AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to brokers and dealers and clearing organizations at September 30, 2012, consist of the following (dollars in thousands):

	Receivable	Payable
Securities borrowed	\$ 11,855	\$ -
Securities failed-to-deliver/receive	3,318	9,768
Receivables from/payables to clearing organizations	<u>5,756</u>	<u>8,094</u>
	<u>\$ 20,929</u>	<u>\$ 17,862</u>

In addition to the amounts above, the Company also maintains deposits at various clearing organizations. At September 30, 2012, the amounts held on deposit at clearing organizations totaled \$25.6 million and were held entirely in cash.

## 6. PROPERTY AND CAPITALIZED SOFTWARE

Property and capitalized software, which is recorded at cost at September 30, 2012, consists of the following (dollars in thousands):

Land	\$ 3,561
Buildings and leasehold improvements	75,413
Equipment	65,564
Software	77,696
Furniture and fixtures	<u>23,090</u>
	245,324
Less accumulated depreciation and amortization	<u>(163,612)</u>
Total	<u>\$ 81,712</u>

## 7. FINANCING ARRANGEMENTS

The Company's note payable bears a fixed interest rate of 6.18% per annum with principal and interest payments made monthly and matures on March 1, 2024. The note payable is secured by a building owned by the Company and is a sole recourse obligation. The schedule of principal payments for the periods ending September 30 on the note payable is as follows (dollars in thousands):

2013	\$ 875
2014	930
2015	989
2016	1,052
2017	1,119
2018 and after	<u>9,083</u>
Total	<u>\$14,048</u>

## 8. SHORT-TERM FUNDING AND LIQUIDITY RISK

The Company finances its receivables from customers with customer free credit balances. The Company pays interest on such customer credit balances at fluctuating rates depending on the balance in the customer's account. At September 30, 2012, the interest rates ranged from 0.01% to 0.12%.

The Company from time to time enters into certain financing arrangements in order to manage short-term liquidity risk, such as funding daily net National Securities Clearing Corporation and Depository Trust & Clearing Corporation trading settlement transactions, and related deposit requirements. The Company entered into a Third Amended and Restated Loan Agreement dated February 23, 2012 with a group of banks for revolving credit facilities consisting of an unsecured revolving credit line and a secured revolving credit line (collectively the "Facility"). The Facility provides for unsecured borrowings for a maximum of five days at which time the unsecured loan matures and must be paid down or refinanced with proceeds from a loan under the secured line, for which the Company must pledge sufficient collateral. In accordance with the terms of the Facility, the Company can borrow up to \$800.0 million.

The borrowings under the unsecured revolving credit line bear interest at an annual rate equal to the adjusted daily LIBOR plus 1.75%. Borrowings under the secured revolving credit line bear interest at an annual rate equal to the adjusted daily LIBOR plus 1.25%. The Facility is subject to a nonrefundable facility fee equal to 0.25% of the total unsecured revolving credit line paid quarterly. As of September 30, 2012, there were no outstanding borrowings under the Facility.

The terms of the Facility require the Company and Parent to comply with certain covenants and conditions, including minimum tangible net worth covenants, a maximum leverage ratio, minimum excess regulatory capital required amounts and a minimum net capital percentage. The Company and Parent were in compliance with all such covenants and conditions as of and during the year ended September 30, 2012.

In addition to the Facility, the Company maintains separate lines of credit with certain lenders whereby it can borrow up to a maximum of \$225.0 million of borrowings secured by pledged excess customer securities. These lines of credit are not subject to any facility fees and bear market-based variable interest rates. As of September 30, 2012, no amounts were outstanding under these lines of credit.

As disclosed above, at September 30, 2012, the Company had both secured and unsecured lines of credit that provided for available borrowings in the aggregate of up to \$1.0 billion. No borrowings were outstanding as of September 30, 2012.

#### 9. NET CAPITAL REQUIREMENT

The Company is subject to the Uniform Net Capital Rule ("Rule 15c3-1") under the Securities Exchange Act of 1934 which requires the maintenance of minimum net capital of not less than 2% of aggregate debit items arising from customer transactions or \$250,000, whichever is greater. Rule 15c3-1 also requires that equity capital may not be withdrawn or distributions paid to the Parent if the Company's net capital is less than 5% of such items. At September 30, 2012, the Company had net capital of \$307.0 million, which was \$266.6 million in excess of the minimum required.

#### 10. COMMITMENTS AND CONTINGENCIES

The Company has long-term operating leases for computer equipment and office space, including an office facility, which is leased from the Parent's stockholder (see Note 13). Minimum rental commitments under all noncancelable leases and other firm commitments, some of which contain renewal options and escalation clauses, are as follows (dollars in thousands):

##### Periods Ending September 30

2013	\$ 52,123
2014	42,846
2015	30,531
2016	22,530
2017	21,228
2018 and after	<u>63,179</u>
Total	<u>\$ 232,437</u>

The Company also provides guarantees to securities clearing houses and exchanges under their standard membership agreements, which require members to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearinghouses and

exchanges, all other members would be required to meet any shortfall. The Company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. Management estimates that the potential requirement for the Company to make payments under these agreements is remote. Accordingly, no liability has been recognized for these transactions.

The Company is involved, from time to time, in litigation, examinations and proceedings by governmental and self-regulatory agencies, certain of which may result in adverse judgments, fines, or penalties. While results of legal proceedings, examinations and proceedings by governmental and self-regulatory agencies or the results of judgments, fines or penalties cannot be predicted with certainty, management, after consultation with counsel, believes, based on currently known facts, that resolution of all such matters are not expected to have a material effect on the balance sheet.

## 11. FAIR VALUE MEASUREMENTS

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment, which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

The Company's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by *Fair Value Measurements*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

**Level 1** — Inputs represent unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

**Level 2** — Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.

**Level 3** — Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

**Financial Assets Measured at Fair Value on a Recurring Basis** — The following table provides information as of September 30, 2012, about the Company's financial assets measured at fair value on a recurring basis (dollars in thousands):

<b>September 30, 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. government obligations	\$2,519,332	\$ -	\$ -	\$2,519,332
Convertible preferred equity	-	17,865	-	17,865
Common stock	177	-	-	177
Mutual funds	<u>43</u>	<u>-</u>	<u>-</u>	<u>43</u>
Total securities owned	<u>\$2,519,552</u>	<u>\$17,865</u>	<u>\$ -</u>	<u>\$2,537,417</u>

U.S. government obligations of \$2.5 billion are included in cash and securities segregated under federal and other regulations on the balance sheet. Convertible preferred equity, common stock and mutual funds are included in other assets on the balance sheet.

**Level 1 Financial Assets** — Level 1 assets are principally comprised of U.S. government obligations with a smaller portion invested in marketable equity securities. Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

**Level 2 Financial Assets** — Level 2 assets are comprised of convertible preferred equity securities. Valuation is based on a discounted cash flow method using observable market inputs such as fair value of the underlying common shares, volatility, credit spread and discount rates.

**Level 3 Financial Assets** — The Company maintained no assets that would classify as Level 3 as of September 30, 2012.

## 12. CREDIT RISK

The Company's customer securities activities involve the execution, settlement, and financing of various transactions on behalf of its customers. Customer activities are transacted on either a cash or margin basis and are recorded on a settlement date basis. The Company's exposure to credit risk associated with the nonperformance of these customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile trading markets, which may impair the customers' ability to satisfy their obligations to the Company. The Company monitors exposure to industry sectors and individual securities and performs analysis on a regular basis in connection with its margin lending activities. The Company also monitors required margin levels and customers are required to deposit additional collateral, or reduce positions, when necessary.

At September 30, 2012, excess customer margin securities of \$2.8 billion and stock borrowings of \$11.9 million were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company had utilized a portion of these available securities as collateral for Options Clearing Corporation margin requirements and customer short sales totaling \$430.2 million at September 30, 2012.

## 13. RELATED-PARTY TRANSACTIONS

The Company has entered into an office facility lease with the Parent's principal stockholder. The estimated future minimum rental commitments under this lease are \$4.1 million as of September 30, 2012. The lease expires November 30, 2017.

As of September 30, 2012, the Company had \$13.9 billion on deposit at Scottrade Bank (the "Bank"), an affiliate of the Company, on behalf of its customers through the Bank Deposit Program ("BDP"). The Company offers the BDP to certain customers whereby uninvested cash balances in brokerage accounts are swept into various banks to obtain FDIC coverage. Pursuant to a deposit brokerage agreement between the Company and the Bank, the Company receives a deposit fee of cost of funds plus 45 basis points for deposits held at the Bank on behalf of the Company's customers throughout the BDP.

The Company has an intercompany receivable of \$0.5 million for expenses paid on behalf of the Parent and affiliated companies as of September 30, 2012, which is included in other assets on the balance sheet.

The Company has entered into various lease agreements with the Parent for office space used by the Company. The estimated future minimum rental commitments under this lease are \$27.4 million as of September 30, 2012.

The Company has entered into various lease agreements as of April 1, 2012 with the Bank for office space used by the Company. The estimated future minimum rental commitments under these leases are \$60.3 million as of September 30, 2012. The Company also has entered into various lease agreements with the Bank for equipment used by the Company. The estimated future minimum rental commitments under these leases are \$3.5 million as of September 30, 2012.

As of September 30, 2012, officers and directors of the Company have \$16.9 million of receivables included in receivables from customers on the balance sheet, which are fully secured margin loans subject to the same terms as the Company's customers.

An entity under common control with the Parent's principal stockholder maintains a brokerage account at the Company with a cash balance of \$14.6 million at September 30, 2012, which is included in payables to customers on the balance sheet.

\* \* \* \* \*

A copy of the Company's September 30, 2012, balance sheet filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 is available for examination at the Chicago regional office of the Securities and Exchange Commission or at our principle office at 700 Maryville Centre Drive, St. Louis, MO 63141.

