SCHWAB CHARLES CORP
Form 10-K
February 25, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009 **Commission file number 1-9700**

THE CHARLES SCHWAB CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**94-3025021**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

211 Main Street, San Francisco, CA 94105

(Address of principal executive offices and zip code)

Registrant s telephone number, including area code: (415) 636-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock - $.01 par value per share	The Nasdaq Stock Market

Securities registered pursuant to Section 12(g) of the Act: Common Stock - None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange 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 whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ¨

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

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

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

As of June 30, 2009, the aggregate market value of the voting stock held by non-affiliates of the registrant was $16.9 billion. For purposes of this information, the outstanding shares of Common Stock owned by directors and executive officers of the registrant, and certain investment companies managed by Charles Schwab Investment Management, Inc. were deemed to be shares of the voting stock held by affiliates.

The number of shares of Common Stock outstanding as of January 29, 2010, was 1,192,216,294.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates certain information contained in the registrant s definitive proxy statement for its annual meeting of stockholders, to be held May 13, 2010, by reference to that document.

Table of Contents

THE CHARLES SCHWAB CORPORATION

Annual Report On Form 10-K

For Fiscal Year Ended December 31, 2009

TABLE OF CONTENTS

Part I

Item 1.	Business	1
	General Corporate Overview	1
	Acquisition and Divestiture	1
	Business Strategy and Competitive Environment	1
	Products and Services	2
	Regulation	5
	Sources of Net Revenues	6
	Available Information	6
Item 1A.	Risk Factors	6
Item 1B.	Unresolved Securities and Exchange Commission Staff Comments	11
Item 2.	Properties	11
Item 3.	Legal Proceedings	12
Item 4.	Submission of Matters to a Vote of Security Holders	12

Part II

Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6.	Selected Financial Data	14
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	15
	Overview	15
	Current Market Environment	17
	Results of Operations	18
	Liquidity and Capital Resources	25
	Risk Management	30
	Fair Value of Financial Instruments	36
	Critical Accounting Estimates	36
	Forward-Looking Statements	38
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	39
Item 8.	Financial Statements and Supplementary Data	41
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	85
Item 9A.	Controls and Procedures	85
Item 9B.	Other Information	85

Part III

Item 10.	Directors, Executive Officers, and Corporate Governance	85
Item 11.	Executive Compensation	87
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	87
Item 13.	Certain Relationships and Related Transactions, and Director Independence	87

Item 14.	Principal Accountant Fees and Services	87
Part IV		
Item 15.	Exhibits and Financial Statement Schedule	88
	Exhibit Index	88
	Signatures	93
	Index to Financial Statement Schedule	F-1

Table of Contents

THE CHARLES SCHWAB CORPORATION

PART I

Item 1. Business

General Corporate Overview

The Charles Schwab Corporation (CSC), headquartered in San Francisco, California, was incorporated in 1986 and engages, through its subsidiaries (collectively referred to as the Company, and primarily located in San Francisco except as indicated), in securities brokerage, banking, and related financial services. At December 31, 2009, the Company had $1.42 trillion in client assets, 7.7 million active brokerage accounts[(a)] , 1.5 million corporate retirement plan participants, and 722,000 banking accounts.

Significant subsidiaries of CSC include:

- Charles Schwab & Co., Inc. (Schwab), which was incorporated in 1971, is a securities broker-dealer with 304 domestic branch offices in 45 states, as well as a branch in each of the Commonwealth of Puerto Rico and London, U.K., and serves clients in Hong Kong through one of CSC s subsidiaries;
- Charles Schwab Bank (Schwab Bank), which commenced operations in 2003, is a federal savings bank located in Reno, Nevada; and
- Charles Schwab Investment Management, Inc. (CSIM) is the investment advisor for Schwab s proprietary mutual funds, which are referred to as the Schwab Funds®.

The Company provides financial services to individuals and institutional clients through two segments Investor Services and Institutional Services. The Investor Services segment includes the Company s retail brokerage and banking operations. The Institutional Services segment provides custodial, trading, and support services to independent investment advisors (IAs), as well as retirement plan, equity compensation plan, and other financial services to corporations and their employees. For financial information by segment for the three years ended December 31, 2009, see Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 21. Segment Information.

As of December 31, 2009, the Company had full-time, part-time and temporary employees, and persons employed on a contract basis that represented the equivalent of about 12,400 full-time employees.

Acquisition and Divestiture

In July 2007, the Company sold all of the outstanding stock of U.S. Trust Corporation (USTC, and with its subsidiaries collectively referred to as U.S. Trust). U.S. Trust was a subsidiary that provided wealth management services.

In March 2007, the Company acquired The 401(k) Company, which offers retirement plan services. The acquisition enhanced the Company s ability to meet the needs of retirement plans of all sizes. The acquisition also provided the opportunity to capture rollover accounts from individuals participating in retirement plans served by The 401(k) Company and to cross-sell the Company s other investment and banking services to plan participants.

Business Strategy and Competitive Environment

The Company s purpose is to help everyone be financially fit. The Company s strategy is to meet the financial services needs of individual investors, both directly and indirectly, through its two segments. To pursue its strategy, the Company focuses on: building client loyalty; innovating in ways that benefit clients; operating in a disciplined manner; and leveraging its strengths through shared core processes and technology platforms. The Company provides clients with a compelling combination of personalized relationships, superior service, and great value, delivered through a blend of people and technology. People provide the client focus and personal touch that are essential in serving investors, while technology helps create services that are scalable and consistent. This combination helps the Company address a wide range of client needs from tools and information for self-directed or active investors, to advice services, to retirement and equity-based incentive

(a) Accounts with balances or activity within the preceding eight months.

Table of Contents

THE CHARLES SCHWAB CORPORATION

plans, to support services for independent IAs while enabling each client to easily utilize some or all of these capabilities according to their unique circumstances.

The Company s competition in serving individual investors includes a wide range of brokerage, wealth management, and asset management firms, as well as banks and trust companies. In serving these investors and competing for a growing percentage of the investable wealth in the U.S., the Company offers a multi-channel service delivery model, which includes branch, telephonic, and online capabilities. Under this model, the Company can offer personalized service at competitive prices while giving clients the choice of where, when, and how they do business with the Company. Schwab s branches and regional telephone service centers are staffed with trained and experienced financial consultants (FCs) focused on building and sustaining client relationships. The Company offers the ability to meet client investing needs through a single ongoing point of contact, even as those needs change over time. In particular, management believes that the Company s ability to provide those clients seeking help, guidance, or advice with an integrated, individually tailored solution ranging from occasional consultations to an ongoing relationship with a Schwab FC or an IA is a competitive strength compared to the more fragmented offerings of other firms.

The Company s online and telephonic channels provide quick and efficient access to an extensive array of information, research, tools, trade execution, and administrative services, which clients can access according to their needs. For example, as clients trade more actively, they can use these channels to access highly competitive pricing, expert tools, and extensive service capabilities including experienced, knowledgeable teams of trading specialists and integrated product offerings.

Individuals investing for retirement through 401(k) plans can take advantage of the Company s bundled offering of multiple investment choices, education, and third-party advice. Management also believes the Company is able to compete with the wide variety of financial services firms striving to attract individual client relationships by complementing these capabilities with the extensive array of investment, banking, and lending products and services described in the following section.

In the IA arena, the Company competes with institutional custodians, traditional and discount brokers, banks, and trust companies. Management believes that its Institutional Services segment can maintain its market leadership position primarily through the efforts of its expanded sales and support teams, which are dedicated to helping IAs grow, compete, and succeed in serving their clients. In addition to focusing on superior service, Institutional Services competes by utilizing technology to provide IAs with a highly-developed, scalable platform for administering their clients assets easily and efficiently. Institutional Services sponsors a variety of national, regional, and local events designed to help IAs identify and implement better ways to grow and manage their practices efficiently.

Another important aspect of the Company s ability to compete is its ongoing focus on efficiency and productivity, as lower costs give the Company greater flexibility in its approach to pricing and investing for growth. Management believes that this flexibility remains important in light of the current competitive environment, in which a number of competitors offer reduced online trading commission rates and lower expense ratios on certain classes of mutual funds. Additionally, the Company s nationwide marketing effort is an important competitive tool because it reinforces the attributes of the Schwab® brand.

Products and Services

The Company offers a broad range of products to address individuals varying investment and financial needs. Examples of these product offerings include:

Brokerage an array of asset management accounts including some with check-writing features, debit card, and billpay; individual retirement accounts; retirement plans for small to large businesses; 529 college savings accounts; separately managed accounts; designated brokerage accounts; equity incentive plan accounts; and margin loans, as well as access to fixed income securities, equity and debt offerings, and exchange traded funds;

Banking first mortgages, home equity lines of credit, pledged-asset loans, certificates of deposit, demand deposit accounts, checking accounts linked to brokerage accounts, savings accounts, and credit cards;

Trust trust custody services, personal trust reporting services, and administrative trustee services; and

Mutual funds third-party mutual funds through Mutual Fund Marketplace®, including no-load mutual funds through the Mutual Fund OneSource® service, proprietary mutual funds from two fund families Schwab Funds® and Laudus Funds®, other third-party mutual funds, and mutual fund trading and clearing services to broker-dealers.

Table of Contents

THE CHARLES SCHWAB CORPORATION

These products, and the Company s full array of investing services, are made available through its two segments Investor Services and Institutional Services.

Investor Services

Through the Investor Services segment, the Company provides retail brokerage and banking services to individual investors.

The Company offers research, analytic tools, performance reports, market analysis, and educational material to all clients. Clients looking for more guidance have access to online portfolio planning tools, as well as professional advice from Schwab s portfolio consultants who can help develop an investment strategy and carry out investment and portfolio management decisions.

Schwab strives to demystify investing by educating and assisting clients in the development of investment plans. Educational tools include workshops, interactive courses, and online information about investing. Additionally, Schwab provides various internet-based research and analysis tools that are designed to help clients achieve better investment outcomes. As an example of such tools, Schwab Equity Ratings® is a quantitative model-based stock rating system that provides all clients with ratings on approximately 3,000 stocks, assigning each equity a single grade: A, B, C, D, or F. Stocks are rated based on specific factors relating to fundamentals, valuation, momentum, and risk and ranked so that the number of buy consideration ratings As and Bs equals the number of sell consideration ratings Ds and Fs.

Clients may need specific investment recommendations, either from time to time or on an ongoing basis. The Company provides clients seeking advice with customized solutions. The Company s approach to advice is based on long-term investment strategies and guidance on portfolio diversification and asset allocation. This approach is designed to be offered consistently across all of Schwab s delivery channels.

Schwab Private Client™ features a personal advice relationship with a designated FC, supported by a team of investment professionals who provide individualized service, a customized investment strategy developed in collaboration with the client, and ongoing guidance and execution.

For clients seeking a relationship in which investment decisions are fully delegated to a financial professional, the Company offers several alternatives. The Company provides investors access to professional investment management in a diversified account that is invested exclusively in either mutual funds or exchange traded funds through the Schwab Managed Portfolio™ program. The Company also refers investors who want to utilize a specific third-party money manager to direct a portion of their investment assets to the Schwab Managed Account program. In addition, clients who want the assistance of an independent professional in managing their financial affairs may be referred to IAs in the Schwab Advisor Network®. These IAs provide personalized portfolio management, financial planning, and wealth management solutions.

The Company strives to deliver information, education, technology, service, and pricing that meet the specific needs of clients who trade actively. Schwab offers integrated Web- and software-based trading platforms, which incorporate intelligent order routing technology, real-time

market data, options trading, premium stock research, and multi-channel access, as well as sophisticated account and trade management features, risk management tools, decision support tools, and dedicated personal support.

The Company serves both foreign investors and non-English-speaking U.S. clients who wish to trade or invest in U.S. dollar-based securities. The Company has a physical presence in the United Kingdom and Hong Kong. In the U.S., the Company serves Chinese-, Korean-, Spanish-, and Vietnamese-speaking clients through a combination of its branch offices and Web-based and telephonic services.

Institutional Services

Through the Institutional Services segment, Schwab provides custodial, trading, technology, practice management, trust asset, and other support services to IAs. To attract and serve IAs, Institutional Services has a dedicated sales force and service teams assigned to meet their needs.

THE CHARLES SCHWAB CORPORATION

IAs who custody client accounts at Schwab may use proprietary software that provides them with up-to-date client account information, as well as trading capabilities. The Institutional Services website is the core platform for IAs to conduct daily business activities online with Schwab, including submitting client account information and retrieving news and market information. This platform provides IAs with a comprehensive suite of electronic and paper-based reporting capabilities. Institutional Services offers online cashiering services, as well as internet-based eDocuments sites for both IAs and their clients that provide multi-year archiving of online statements, trade confirms and tax reports, along with document search capabilities.

To help IAs grow and manage their practices, Institutional Services offers a variety of services, including marketing and business development, business strategy and planning, and transition support. Regulatory compliance consulting and support services are available, as well as website design and development capabilities. Institutional Services maintains a website that provides interactive tools, educational content, and research reports to assist advisors thinking about establishing their own independent practices.

Institutional Services offers an array of services to help advisors establish their own independent practices through the Business Start-up Solutions package. This includes access to dedicated service teams and outsourcing of back-office operations, as well as third-party firms who provide assistance with real estate, errors and omissions insurance, and company benefits.

The Company offers a variety of educational materials and events to IAs seeking to expand their knowledge of industry issues and trends, as well as sharpen their individual expertise and practice management skills. Institutional Services updates and shares market research on an ongoing basis, and it holds a series of events and conferences every year to discuss topics of interest to IAs, including business strategies and best practices. The Company sponsors the annual IMPACT® conference, which provides a national forum for the Company, IAs, and other industry participants to gather and share information and insights.

IAs and their clients have access to a broad range of the Company s products and services, including managed accounts and cash products.

The Institutional Services segment also provides retirement plan services, plan administrator services, stock plan services, and mutual fund clearing services, and supports the availability of Schwab proprietary mutual funds on third-party platforms. The Company serves a range of employer sponsored plans: equity compensation plans, defined contribution plans, defined benefit plans, and other investment related benefits plans.

The Company s bundled 401(k) retirement plan product offers plan sponsors a wide array of investment options, trustee services, and participant-level recordkeeping. Plan design features, which increase plan efficiency and achieve employer goals, are also offered, such as automatic enrollment, automatic fund mapping at conversion, and automatic contribution increases. Services such as Roth 401(k) and designated brokerage accounts are also offered. The Company provides a robust suite of tools to plan sponsors to manage their plans, including plan-specific reports, studies and research, access to legislative updates and benchmarking reports that provide perspective of their plan s features compared with overall industry and segment-specific plans. Participants in bundled 401(k) plans receive targeted education materials, have access to electronic tools and resources, may attend onsite and virtual seminars, and can receive customized advice provided by a third party.

Participants in 401(k) plans administered by Institutional Services have access to personalized advice online, by phone, or in person, including recommendations specific to the core investment fund choices in their retirement plan and specific recommended savings rates. Advice services include the automatic rebalancing of participant accounts to maintain proper asset allocations.

The Company s equity compensation plan product offers plan sponsors full-service recordkeeping for stock plans: stock options, restricted stock, performance shares and stock appreciation rights. Specialized services for executive transactions and reporting, grant acceptance tracking and other services are offered to employers to meet the needs of administering the reporting and compliance aspects of an equity compensation plan.

THE CHARLES SCHWAB CORPORATION

Through the Plan Administrator Services unit, the Company and third-party administrators work together to serve plan sponsors, combining the consulting and administrative expertise of the administrator with the Company s investment, technology, participant education and trustee services.

Schwab also offers its proprietary mutual funds and collective trust funds on third-party retirement platforms, allowing plan sponsors outside of the Company s bundled platform access to the Schwab Managed Retirement Trust Fund family. These target-date retirement collective trusts have independent sub-managers and leverage both active and passive management, which offer institutional structure and pricing.

Regulation

CSC is a savings and loan holding company and Schwab Bank, CSC s depository institution subsidiary, is a federal savings bank. CSC and Schwab Bank are both subject to supervision and regulation by the Office of Thrift Supervision. As a savings and loan holding company, CSC is not subject to specific statutory capital requirements. However, CSC is required to maintain capital that is sufficient to support the holding company and its subsidiaries business activities, and the risks inherent in those activities.

Schwab Bank is subject to regulation and supervision and to various requirements and restrictions under federal and state laws, including regulatory capital guidelines. Among other things, these requirements govern transactions with CSC and its non-depository institution subsidiaries, including loans and other extensions of credit, investments or asset purchases, dividends, and investments. The federal banking agencies have broad powers to enforce these regulations, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Schwab Bank is required to maintain a capital level that at least equals minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on Schwab Bank.

The securities industry in the United States is subject to extensive regulation under both federal and state laws. Schwab is registered as a broker-dealer with the Securities and Exchange Commission (SEC), the fifty states, and the District of Columbia and Puerto Rico. Schwab and CSIM are registered as investment advisors with the SEC. Additionally, Schwab is regulated by the Commodities Futures Trading Commission (CFTC) with respect to the futures and commodities trading activities it conducts as an introducing broker.

Much of the regulation of broker-dealers has been delegated to self-regulatory organizations (SROs), namely the Financial Industry Regulatory Authority, Inc. (FINRA), and the Municipal Securities Rulemaking Board (MSRB). Schwab is a member of the Nasdaq Stock Market and the Chicago Board Options Exchange and is consequently subject to their rules and regulations. The primary regulators of Schwab are the FINRA and, for municipal securities, the MSRB. The CFTC has designated the National Futures Association (NFA) as Schwab s primary regulator for futures and commodities trading activities. The Company s business is also subject to oversight by regulatory bodies in other countries in which the Company operates.

The principal purpose of regulating broker-dealers and investment advisors is the protection of clients and the securities markets. The regulations to which broker-dealers and investment advisors are subject cover all aspects of the securities business, including, among other things, sales and trading practices, publication of research, margin lending, uses and safekeeping of clients funds and securities, capital adequacy, recordkeeping

and reporting, fee arrangements, disclosure to clients, fiduciary duties owed to advisory clients, and the conduct of directors, officers and employees.

As a registered broker-dealer, Schwab is subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the Uniform Net Capital Rule) and related SRO requirements. The CFTC and NFA also impose net capital requirements. The Uniform Net Capital Rule specifies minimum capital requirements that are intended to ensure the general financial soundness and liquidity of broker-dealers. Because CSC itself is not a registered broker-dealer, it is not subject to the Uniform Net Capital Rule. However, if Schwab failed to maintain specified levels of net capital, such failure would constitute a default by CSC under certain debt covenants.

THE CHARLES SCHWAB CORPORATION

The Uniform Net Capital Rule limits broker-dealers ability to transfer capital to parent companies and other affiliates. Compliance with the Uniform Net Capital Rule could limit Schwab s operations and its ability to repay subordinated debt to CSC, which in turn could limit CSC s ability to repay debt, pay cash dividends, and purchase shares of its outstanding stock.

Sources of Net Revenues

The Company s major sources of net revenues are asset management and administration fees, net interest revenue, and trading revenue. The Company generates asset management and administration fees through its proprietary and third-party mutual fund offerings, as well as fee-based investment management and advisory services. Net interest revenue is the difference between interest earned on interest-earning assets (such as cash, short- and long-term investments, and mortgage and margin loans) and interest paid on funding sources (including deposits in banking and brokerage accounts, short-term borrowings, and long-term debt). The Company generates trading revenues through commissions earned for executing trades for clients and principal transaction revenues from trading activity in fixed income securities.

For revenue information by source for the three years ended December 31, 2009, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Net Revenues.

Available Information

The Company files annual, quarterly, and current reports, proxy statements, and other information with the SEC. The Company s SEC filings are available to the public over the Internet on the SEC s website at http://www.sec.gov. You may read and copy any document that the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

On the Company s Internet website, http://www.aboutschwab.com, the Company posts the following recent filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: the Company s annual reports on Form 10-K, the Company s quarterly reports on Form 10-Q, the Company s current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings are available free of charge either on the Company s website or by request via email (investor.relations@schwab.com), telephone (415-667-1959), or mail (Charles Schwab Investor Relations at 211 Main Street, San Francisco, CA 94105).

Item 1A. Risk Factors

The Company faces a variety of risks that may affect its operations or financial results, and many of those risks are driven by factors that the Company cannot control or predict. The following discussion addresses those risks that management believes are the most significant, although there may be other risks that could arise, or may prove to be more significant than expected, that may affect the Company s operations or financial results.

For a discussion of the Company s risk management, including technology and operating risk, credit risk, concentration risk, market risk, fiduciary risk, and legal and regulatory risk, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management.

Developments in the business, economic, and geopolitical environment could negatively impact the Company s business.

The Company s business can be adversely affected by the general environment economic, corporate, securities market, regulatory, and geopolitical developments all play a role in client asset valuations, trading activity, interest rates and overall investor engagement, and are outside of the Company s control. Deterioration in the housing and credit markets, reductions in short-term interest rates, and decreases in securities valuations are negatively impacting the Company s net interest revenue, asset management and administration fees, and capital resources.

THE CHARLES SCHWAB CORPORATION

A significant decrease in the Company s liquidity could negatively affect the Company s business and financial management as well as reduce client confidence in the Company.

Maintaining adequate liquidity is crucial to the business operations of the Company, including margin lending, mortgage lending, and transaction settlement, among other liquidity needs. The Company meets its liquidity needs primarily through cash generated by client activity and operating earnings, as well as cash provided by external financing. Fluctuations in client cash or deposit balances, as well as changes in market conditions, may affect the Company s ability to meet its liquidity needs. A reduction in the Company s liquidity position could reduce client confidence in the Company, which could result in the loss of client accounts. In addition, if the Company s broker-dealer or depository institution subsidiaries fail to meet regulatory capital guidelines, regulators could limit the subsidiaries operations or their ability to upstream funds to CSC, which could reduce CSC s liquidity and adversely affect its ability to repay debt and pay cash dividends.

Factors which may adversely affect the Company s liquidity position include a reduction in cash held in banking or brokerage client accounts and/or a dramatic increase in the Company s client lending activities (including margin and personal lending). The Company also experiences liquidity demands as a result of brokerage client asset flows. In the ordinary course of business, clients asset flows between cash balances and investment products and timing differences between when amounts are segregated for regulatory purposes and when amounts are required to fund settlement of client transactions can create significant daily changes in the Company s cash position. The unpredictability of such timing differences and liquidity demands has increased with recent market conditions as client asset flows have become more volatile.

When cash generated by client activity and operating earnings is not sufficient for the Company s liquidity needs, the Company must seek external financing. Due to significant disruptions in the credit and capital markets, potential sources of external financing have been reduced for many firms, and borrowing costs have increased. Although CSC and Schwab maintain uncommitted, unsecured bank credit lines and CSC has a commercial paper issuance program, as well as a universal shelf registration statement filed with the SEC, financing may not be available on acceptable terms or at all due to market conditions and disruptions in the credit markets. In addition, a significant downgrade in the Company s credit ratings could increase its borrowing costs and limit its access to the capital markets.

The Company may suffer significant losses from its credit exposures.

The Company s businesses are subject to the risk that a client, counterparty or issuer will fail to perform its contractual obligations, or that the value of collateral held to secure obligations will prove to be inadequate. While the Company has policies and procedures designed to manage this risk, the policies and procedures may not be fully effective. The Company s exposure mainly results from margin lending activities, securities lending activities, mortgage lending activities, its role as a counterparty in financial contracts and investing activities, and indirectly from the investing activities of certain of the proprietary funds that the Company sponsors.

The Company has exposure to credit risk associated with its securities available for sale and securities held to maturity portfolios, which includes U.S. agency and non-agency residential mortgage-backed securities, consumer loan asset-backed securities, corporate debt securities, and certificates of deposit among other investments. These instruments are also subject to price fluctuations as a result of changes in the financial market s assessment of issuer credit quality, increases in the unemployment rate, delinquency and default rates, housing price declines, changes in prevailing interest rates and other economic factors.

Loss of value of securities available for sale and securities held to maturity can result in charges if management determines that the impairments are other than temporary. The evaluation of whether other-than-temporary impairment exists is a matter of judgment which includes the assessment of several factors. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates. If management determines that a security is other-than-temporarily impaired, the cost basis of the security may be adjusted and a corresponding loss may be recognized in current earnings. Certain securities available for sale experienced deteriorating credit characteristics in 2009 which resulted in impairment charges. Deterioration in the performance of securities available for sale and securities held to maturity could result in the recognition of future impairment charges.

Table of Contents

THE CHARLES SCHWAB CORPORATION

The Company s loans to banking clients primarily consist of first-lien mortgage loans and home equity lines of credit. Increases in delinquency and default rates, housing price declines, increases in the unemployment rate, and other economic factors can result in charges for loan loss reserves and write downs on such loans.

Heightened credit exposures to specific counterparties or instruments (concentration risk) can increase the Company s risk of loss. Examples of the Company s credit concentration risk include:

- large positions in financial instruments collateralized by assets with similar economic characteristics or in securities of a single issuer or industry;
- mortgage loans and home equity lines of credit to banking clients which are secured by properties in the same geographic region; and
- margin and securities lending activities collateralized by securities of a single issuer or industry.

The Company may also be subject to concentration risk when lending to a particular counterparty, borrower or issuer.

The Company sponsors a number of proprietary money market mutual funds and other proprietary funds. Although the Company has no obligation to do so, the Company may decide for competitive reasons to provide credit, liquidity or other support to its funds in the event of significant declines in valuation of fund holdings or significant redemption activity that exceeds available liquidity. Such support could cause the Company to take significant charges and could reduce the Company s liquidity. If the Company chose not to provide credit, liquidity or other support in such a situation, the Company could suffer reputational damage and its business could be adversely affected**.**

Significant interest rate changes could affect the Company s profitability and financial condition.

The Company is exposed to interest rate risk primarily from changes in the interest rates on its interest-earning assets (such as cash, short- and long-term investments, and mortgage and margin loans) relative to changes in the costs of its funding sources (including deposits in banking and brokerage accounts, short-term borrowings, and long-term debt). Changes in interest rates generally affect the interest earned on interest-earning assets differently than the interest the Company pays on its interest-bearing liabilities. In addition, certain funding sources do not bear interest and their cost therefore does not vary. Overall, the Company is positioned to benefit from a rising interest rate environment; the Company could be adversely affected by a decline in interest rates if the rates that the Company earns on interest-earning assets decline more than the rates that the Company pays on its funding sources, or if prepayment rates increase on the mortgages and mortgage-backed securities that the Company holds. With the low interest rate environment, the Company s revenue from interest-earning assets has been declining more than the rates that the Company pays on its funding sources. The Company may also be limited in the amount it can reduce interest rates on deposit accounts and still offer a competitive return.

To the extent certain Schwab-sponsored money market mutual funds replace maturing securities with lower yielding securities and the overall yield on such funds falls to a level at or below the management fees on those funds, the Company may waive a portion of its fee in order to continue providing some return to clients. As a result of the low interest rate environment, the Company has been waiving and may continue to waive a portion of its management fees for certain Schwab-sponsored money market mutual funds. Such fee waivers negatively impact the Company s asset management and administration fees.

The Company is subject to litigation and regulatory investigations and proceedings and may not always be successful in defending itself against such claims or proceedings.

The financial services industry faces substantial litigation and regulatory risks. The Company is subject to arbitration claims and lawsuits in the ordinary course of its business, as well as class actions and other significant litigation. The Company is also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies. Actions brought against the Company may result in settlements, awards, injunctions, fines, penalties or other results adverse to the Company including reputational harm. Even if the Company is successful in defending against these actions, the defense of such matters may result in the Company incurring significant expenses. Predicting the outcome of matters is inherently difficult, particularly where claims are brought on behalf of various classes of claimants, claimants seek substantial or unspecified damages, or when investigations or legal proceedings are at an early stage. A substantial judgment, settlement, fine, or penalty could be material to the Company s operating results or cash flows for a particular future period, depending on the

THE CHARLES SCHWAB CORPORATION

Company s results for that period. In market downturns, the volume of legal claims and amount of damages sought in litigation and regulatory proceedings against financial services companies have historically increased. See Item 3 Legal Proceedings.

From time to time, the Company is subject to litigation claims from third parties alleging infringement of their intellectual property rights (e.g., patents). Such litigation can require the expenditure of significant Company resources. If the Company was found to have infringed a third-party patent, or other intellectual property rights, it could incur substantial liability, and in some circumstances could be enjoined from using certain technology, or providing certain products or services.

Extensive regulation of the Company s businesses limits the Company s activities and may subject it to significant penalties.

As a participant in the securities, banking and financial services industries, the Company is subject to extensive regulation under both federal and state laws by governmental agencies, supervisory authorities, and SROs. Such regulation is expected to become more extensive and complex in response to the recent market disruptions. The requirements imposed by the Company s regulators are designed to ensure the integrity of the financial markets, the safety and soundness of financial institutions, and the protection of clients. These regulations often serve to limit the Company s activities by way of capital, customer protection and market conduct requirements, and restrictions on the businesses activities that the Company may conduct. Despite the Company s efforts to comply with applicable regulations, there are a number of risks, particularly in areas where applicable regulations may be unclear or where regulators revise their previous guidance. Any enforcement actions or other proceedings brought by the Company s regulators against the Company or its affiliates, officers or employees could result in fines, penalties, cease and desist orders, enforcement actions, suspension or expulsion, or other disciplinary sanctions, including limitations on the Company s business activities, any of which could harm the Company s reputation and adversely affect the Company s results of operations and financial condition.

Legislation or changes in rules and regulations could negatively impact the Company s business and financial results.

New legislation, rule changes, or changes in the interpretation or enforcement of existing federal, state and SRO rules and regulations may directly affect the operation and profitability of the Company or its specific business lines. The profitability of the Company could also be affected by rules and regulations which impact the business and financial communities generally, including changes to the laws governing taxation, electronic commerce, client privacy and security of client data. In addition, the rules and regulations could result in limitations on the lines of business the Company conducts, modifications to the Company s business practices, increased capital requirements, or additional costs.

The Company s industry is characterized by aggressive price competition.

The Company continually monitors its pricing in relation to competitors and periodically adjusts trade commission rates, interest rates on deposits and loans, fees for advisory services, and other fee structures to enhance its competitive position. Increased price competition from other financial services firms, such as reduced commissions to attract trading volume or higher deposit rates to attract client cash balances, could impact the Company s results of operations and financial condition.

The industry in which the Company competes has undergone a period of consolidation.

The Company faces intense competition for the clients that it serves and the products and services it offers. There has been significant consolidation as financial institutions with which the Company competes have been acquired by or merged into or acquired other firms. This consolidation may continue. Competition is based on many factors, including the range of products and services offered, pricing, customer service, brand recognition, reputation, and perceived financial strength. Consolidations may enable other firms to offer a broader range of products and services than the Company does, or offer such products at more competitive prices.

Table of Contents

THE CHARLES SCHWAB CORPORATION

The Company faces competition in hiring and retaining qualified employees, especially for employees who are key to the Company s ability to build and enhance client relationships.

The market for quality professionals and other personnel in the Company s business is highly competitive. Competition is particularly strong for financial consultants who build and sustain the Company s client relationships. The Company s ability to continue to compete effectively will depend upon its ability to attract new employees and retain existing employees while managing compensation costs.

Technology and operational failures could subject the Company to losses, litigation, and regulatory actions.

The Company faces technology and operating risk which is the potential for loss due to deficiencies in control processes or technology systems of the Company, its vendors or its outsourced service providers that constrain the Company s ability to gather, process, and communicate information and process client transactions efficiently and securely, without interruptions. This risk also includes the risk of human error, employee misconduct, external fraud, computer viruses, terrorist attacks, and natural disaster. The Company s business and operations could be negatively impacted by any significant technology and operational failures. Moreover, instances of fraud or other misconduct, including improper use or disclosure of confidential client, employee, or company information, might also negatively impact the Company s reputation and client confidence in the Company, in addition to any direct losses that might result from such instances. Despite the Company s efforts to identify areas of risk, oversee operational areas involving risk, and implement policies and procedures designed to manage risk, there can be no assurance that the Company will not suffer unexpected losses, reputational damage or regulatory action due to technology or other operational failures, including those of its vendors.

The Company also faces risk related to its security guarantee which covers client losses from unauthorized account activity, such as those caused by external fraud involving the compromise of clients login and password information. Losses reimbursed under the guarantee could have a negative impact on the Company s results of operations.

The Company relies on outsourced service providers to perform key functions.

The Company relies on external service providers to perform certain key technology, processing, servicing, and support functions. These service providers also face technology and operating risk and any significant failures by them, including the improper use or disclosure of the Company s confidential client, employee, or company information, could cause the Company to incur losses and could harm the Company s reputation. An interruption in or the cessation of service by any external service provider as a result of systems failures, capacity constraints, financial difficulties or for any other reason, and the Company s inability to make alternative arrangements in a timely manner could disrupt the Company s operations. Switching to an alternative service provider may require a transition period and result in less efficient operations.

Potential strategic transactions could have a negative impact on the Company s financial position.

The Company evaluates potential strategic transactions, including business combinations, acquisitions, and dispositions. Any such transaction could have a material impact on the Company s financial position, results of operations, or cash flows. The process of evaluating, negotiating, and effecting any such strategic transaction may divert management s attention from other business concerns, and might cause the loss of key clients, employees, and business partners. Moreover, integrating businesses and systems may result in unforeseen expenditures as well as numerous risks and uncertainties, including the need to integrate operational, financial, and management information systems and management controls, integrate relationships with clients and business partners, and manage facilities and employees in different geographic areas. In addition, an acquisition may cause the Company to assume liabilities or become subject to litigation. Further, the Company may not realize the anticipated benefits from an acquisition, and any future acquisition could be dilutive to the Company s current stockholders percentage ownership or to earnings per share (EPS).

The Company s acquisitions and dispositions are typically subject to closing conditions, including regulatory approvals and the absence of material adverse changes in the business, operations or financial condition of the entity being acquired or sold. To the extent the Company enters into an agreement to buy or sell an entity, there can be no guarantee that the transaction will close when expected, or at all. If a material transaction does not close, the Company s stock price could decline.

THE CHARLES SCHWAB CORPORATION

The Company s stock price has fluctuated historically, and may continue to fluctuate.

The Company s stock price can be volatile. Among the factors that may affect the volatility of the Company s stock price are the following:

- speculation in the investment community or the press about, or actual changes in, the Company s competitive position, organizational structure, executive team, operations, financial condition, financial reporting and results, effectiveness of cost reduction initiatives, or strategic transactions;
- the announcement of new products, services, acquisitions, or dispositions by the Company or its competitors;
- increases or decreases in revenue or earnings, changes in earnings estimates by the investment community, and variations between estimated financial results and actual financial results.

Changes in the stock market generally or as it concerns the Company s industry, as well as geopolitical, economic, and business factors unrelated to the Company, may also affect the Company s stock price.

Future sales of CSC s equity securities may adversely affect the market price of CSC s common stock and result in dilution.

CSC s certificate of incorporation authorizes CSC s Board of Directors to, among other things, issue additional shares of common or preferred stock or securities convertible or exchangeable into equity securities, without stockholder approval. CSC may issue additional equity or convertible securities to raise additional capital or for other purposes. The issuance of any additional equity or convertible securities could be substantially dilutive to holders of CSC s common stock and may adversely affect the market price of CSC s common stock.

Item 1B. Unresolved Securities and Exchange Commission Staff Comments

None.

Item 2. Properties

A summary of the Company s significant locations at December 31, 2009, is presented in the following table. Locations are leased or owned as noted below. The square footage amounts are presented net of space that has been subleased to third parties.

(amounts in thousands)	Square Footage	
	Leased	**Owned**
Location		
Corporate office space:		
San Francisco, CA [1]	901	
Service centers:		
Phoenix, AZ [2]	146	709
Denver, CO	383	
Austin, TX	167	
Orlando, FL	140	
Richfield, OH		117
Indianapolis, IN		113

(1) Includes the Company s headquarters.

(2) Includes two data centers.

Substantially all of the Company s branch offices are located in leased premises. The corporate headquarters, data centers, offices, and service centers generally support all of the Company s segments.

Table of Contents

THE CHARLES SCHWAB CORPORATION

Item 3. Legal Proceedings

For a discussion of legal proceedings, see Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 13. Commitments and Contingent Liabilities.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

CSC s common stock is listed on The Nasdaq Stock Market under the ticker symbol SCHW. The number of common stockholders of record as of January 29, 2010, was 8,722. The closing market price per share on that date was $18.29. On February 22, 2010, CSC announced that it is transferring the listing of its common stock to the New York Stock Exchange (NYSE). CSC expects its common stock to begin trading on the NYSE on March 5, 2010, using its current symbol.

The quarterly high and low sales prices for CSC s common stock and the other information required to be furnished pursuant to this item are included in Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 25. Quarterly Financial Information (Unaudited) and 17. Employee Incentive, Deferred Compensation, and Retirement Plans.

The following graph shows a five-year comparison of cumulative total returns for CSC s common stock, the Dow Jones U.S. Investment Services Index, and the Standard & Poor s 500 Index, each of which assumes an initial investment of $100 and reinvestment of dividends.

December 31,	2004	2005	2006	2007	2008	2009
The Charles Schwab Corporation	$ 100	$ 124	$ 164	$ 230	$ 147	$ 174
Dow Jones U.S. Investment Services Index	$ 100	$ 122	$ 165	$ 149	$ 49	$ 78
Standard & Poor s 500 Index	$ 100	$ 105	$ 121	$ 128	$ 81	$ 102

Table of Contents

THE CHARLES SCHWAB CORPORATION

Issuer Purchases of Equity Securities

The following table summarizes purchases made by or on behalf of CSC of its common stock for each calendar month in the fourth quarter of 2009:

Month	Total Number of Shares Purchased (in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program [1] (in thousands)	Approximate Dollar Value of Shares that May Yet be Purchased under the Program (in millions)
October:				
Share Repurchase Program [1]		$		$ 596
Employee transactions [2]	196	$ 17.62	N/A	N/A
November:				
Share Repurchase Program [1]		$		$ 596
Employee transactions [2]	211	$ 17.30	N/A	N/A
December:				
Share Repurchase Program [1]		$		$ 596
Employee transactions [2]	3	$ 18.16	N/A	N/A
Total:				
Share Repurchase Program [1]		$		$ 596
Employee transactions [2]	410	$ 17.46	N/A	N/A

N/A Not applicable.

(1) There were no share repurchases under the Share Repurchase Program during the fourth quarter. Repurchases under this program are under authorizations by CSC s Board of Directors covering up to $500 million and $500 million of common stock publicly announced by the Company on April 25, 2007 and March 13, 2008, respectively. The remaining authorizations do not have an expiration date.

(2) Includes restricted shares withheld (under the terms of grants under employee stock incentive plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares. The Company may receive shares to pay the exercise price and/or to satisfy tax withholding obligations by employees who exercise stock options (granted under employee stock incentive plans), which are commonly referred to as stock swap exercises.

Table of Contents

THE CHARLES SCHWAB CORPORATION

Item 6. Selected Financial Data

Selected Financial and Operating Data

(In Millions, Except Per Share Amounts, Ratios, or as Noted)

	Growth Rates Compounded 4-Year 2005-2009	Annual 1-Year 2008-2009	2009	2008	2007	2006	2005
Results of Operations							
Net revenues	**4%**	**(19%)**	**$ 4,193**	$ 5,150	$ 4,994	$ 4,309	$ 3,619
Expenses excluding interest	**3%**	**(7%)**	**$ 2,917**	$ 3,122	$ 3,141	$ 2,833	$ 2,592
Income from continuing operations	**6%**	**(36%)**	**$ 787**	$ 1,230	$ 1,120	$ 891	$ 634
Net income [1]	**2%**	**(35%)**	**$ 787**	$ 1,212	$ 2,407	$ 1,227	$ 725
Income from continuing operations per share basic	**9%**	**(36%)**	**$ .68**	$ 1.07	$ .93	$ .70	$ .49
Income from continuing operations per share diluted	**9%**	**(36%)**	**$ .68**	$ 1.06	$ .92	$ .69	$ .48
Basic earnings per share [1, 2]	**5%**	**(36%)**	**$ .68**	$ 1.06	$ 1.98	$ .96	$ .56
Diluted earnings per share [1, 2]	**5%**	**(35%)**	**$ .68**	$ 1.05	$ 1.96	$ .95	$ .55
Dividends declared per common share	**28%**	**9%**	**$ .240**	$ .220	$ .200	$ .135	$ .089
Special dividend declared per common share	**N/M**		**$**	$	$ 1.00	$	$
Weighted-average common shares outstanding diluted	**(3%)**		**1,160**	1,157	1,222	1,286	1,308
Asset management and administration fees as a percentage of net revenues			**45%**	46%	47%	45%	46%
Net interest revenue as a percentage of net revenues			**29%**	32%	33%	33%	28%
Trading revenue as a percentage of net revenues [3]			**24%**	21%	17%	18%	21%
Effective income tax rate on income from continuing operations			**38.3%**	39.3%	39.6%	39.6%	38.3%
Capital expenditures purchases of equipment, office facilities, and property, net [4]	**16%**	**(28%)**	**$ 139**	$ 194	$ 168	$ 59	$ 78
Capital expenditures, net, as a percentage of net revenues			**3%**	4%	3%	1%	2%
Performance Measures							
Net revenue (decline) growth			**(19%)**	3%	16%	19%	6%
Pre-tax profit margin from continuing operations			**30.4%**	39.4%	37.1%	34.3%	28.4%
Return on stockholders equity			**17%**	31%	55%	26%	16%

Financial Condition (at year end)							
Total assets	**12%**	**46%**	**$ 75,431**	$ 51,675	$ 42,286	$ 48,992	$ 47,351
Long-term debt	**35%**	**71%**	**$ 1,512**	$ 883	$ 899	$ 388	$ 462
Stockholders equity	**3%**	**25%**	**$ 5,073**	$ 4,061	$ 3,732	$ 5,008	$ 4,450
Assets to stockholders equity ratio			**15**	13	11	10	11
Long-term debt to total financial capital (long-term debt plus stockholders equity)			**23%**	18%	19%	7%	9%
Employee Information							
Full-time equivalent employees [5] (at year end, in thousands)	**2%**	**(7%)**	**12.4**	13.4	13.3	12.4	11.6
Net revenues per average full-time equivalent employee (in thousands)	**1%**	**(12%)**	**$ 338**	$ 383	$ 387	$ 362	$ 319

Note: All information contained in this Annual Report on Form 10-K is presented on a continuing basis unless otherwise noted.

(1) Net income in 2007 includes a gain of $1.2 billion, after tax, on the sale of U.S. Trust.

(2) Both basic and diluted earnings per share include discontinued operations.

(3) Trading revenue includes commission and principal transaction revenues.

(4) Capital expenditures in 2006 are presented net of proceeds of $63 million primarily from the sale of a data center and in 2005 are presented net of proceeds of $20 million from the sale of equipment.

(5) Full-time equivalent employees in 2007 includes 365 employees related to the acquisition of The 401(k) Company in March 2007.

N/M Not meaningful.

Table of Contents

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Management of the Company focuses on several key financial and non-financial metrics in evaluating the Company s financial position and operating performance. All information contained in this Annual Report on Form 10-K is presented on a continuing operations basis unless otherwise noted. Summarized results for the years ended December 31, 2009, 2008, and 2007 are shown in the following table:

Year Ended December 31,	Growth Rate 1-Year 2008-2009	2009	2008	2007
Client Activity Metrics:				
Net new client assets (in billions) [1]	(23%)	$ 87.3	$ 113.4	$ 160.2
Client assets (in billions, at year end)	25%	$ 1,422.6	$ 1,137.0	$ 1,445.5
Clients daily average trades (in thousands)	(4%)	333.6	346.6	284.9
Company Financial Metrics:				
Net revenues	(19%)	$ 4,193	$ 5,150	$ 4,994
Expenses excluding interest	(7%)	2,917	3,122	3,141
Income from continuing operations before taxes on income	(37%)	1,276	2,028	1,853
Taxes on income	(39%)	(489)	(798)	(733)
Income from continuing operations	(36%)	787	1,230	1,120
(Loss) income from discontinued operations, net of tax	N/M		(18)	1,287
Net income	(35%)	$ 787	$ 1,212	$ 2,407
Earnings per share from continuing operations diluted	(36%)	$ .68	$ 1.06	$ .92
Earnings per share diluted	(35%)	$ .68	$ 1.05	$ 1.96
Net revenue (decline) growth from prior year		(19%)	3%	16%
Pre-tax profit margin from continuing operations		30.4%	39.4%	37.1%
Return on stockholders equity		17%	31%	55%
Net revenue per average full-time equivalent employee (in thousands)	(12%)	$ 338	$ 383	$ 387

[1] Net new client assets in 2007 includes $23.0 billion related to the acquisition of The 401(k) Company and $3.3 billion related to a mutual fund clearing services client.

N/M Not meaningful.

Net new client assets is defined as the total inflows of client cash and securities to the firm less client outflows. Management believes that this metric depicts how well the Company s products and services appeal to new and existing clients.

Client assets is the market value of all client assets housed at the Company. Management considers client assets to be indicative of the Company s appeal in the marketplace. Additionally, fluctuations in certain components of client assets (e.g., Mutual Fund OneSource funds) directly impacts asset management and administration fee revenues.

Clients daily average trades is an indicator of client engagement with securities markets and the most prominent driver of trading revenues.

Management believes that earnings per share, net revenue growth, pre-tax profit margin from continuing operations, and return on stockholders equity provide broad indicators of the Company s overall financial health, operating efficiency, and ability to generate acceptable returns within the context of a given operating environment.

Net revenue per average full-time equivalent employee is considered by management to be the Company s broadest measure of productivity.

Table of Contents

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

The Company s major sources of net revenues are asset management and administration fees, net interest revenue, and trading revenue. The Company generates asset management and administration fees through its proprietary and third-party mutual fund offerings, as well as fee-based investment management and advisory services. Net interest revenue is the difference between interest earned on interest-earning assets and interest paid on funding sources. Asset management and administration fees and net interest revenue are impacted by securities valuations, interest rates, the Company s ability to attract new clients, and client activity levels. The Company generates trading revenues through commissions earned for executing trades for clients and principal transaction revenues from trading activity in fixed income securities. Trading revenues are impacted by trading volumes, the volatility of prices in the equity and fixed income markets, and commission rates.

2009 Compared to 2008

Economic and market conditions remained challenging throughout 2009, marked by unprecedented market dynamics including further declines in short-term interest rates and home valuations, increases in home foreclosures and delinquencies, and tight credit markets. While the federal funds target rate remained unchanged at a range of zero to 0.25%, the three-month LIBOR decreased by 158 basis points to 0.25%. At the same time, although the equity markets showed sustained improvement from their March 2009 lows the Nasdaq Composite Index, the Standard & Poor s 500 Index, and the Dow Jones Industrial Average increased during the year by 44%, 24%, and 19%, respectively average equity market valuations declined in 2009 from 2008.

In this shifting market environment, clients continued to actively utilize the Company s products and services. The Company attracted $87.3 billion in net new client assets during the year. Total client assets were $1.42 trillion at December 31, 2009, up 25% from the prior year, reflecting the Company s success in continuing to attract and retain clients. Client trading activity slowed modestly during the year as clients daily average trades decreased 4% to 333,600 in 2009 from 2008.

Net revenues decreased by 19% in 2009 from 2008, primarily due to the decreases in asset management and administration fees and net interest revenue. Asset management and administration fees decreased in 2009 primarily due to money market mutual fund fee waivers and lower average equity market valuations. Given the low interest rate environment, the overall yields on certain Schwab-sponsored money market mutual funds have fallen to levels at or below the management fees on those funds. As a result, the Company waived a portion of its fees which totaled $224 million in order to provide a positive return to clients. There were no money market mutual fund fee waivers in 2008 or 2007. Net interest revenue decreased as a result of the low interest rate environment, partially offset by higher average balances of interest-earning assets. These decreases were offset by the increase in other revenue. Other revenue in 2009 included a $31 million gain on the repurchase of a portion of the Company s long-term debt. In addition, other revenue in 2008 included a loss of $29 million on the sale of a corporate debt security held in the Company s available for sale portfolio. Net revenues were also negatively impacted by net impairment charges of $60 million in 2009 relating to certain residential mortgage-backed securities in the Company s available for sale portfolio. Net impairment losses on securities in 2008 included an other-than-temporary impairment charge of $44 million related to a corporate debt security held in the Company s available for sale portfolio.

Expenses excluding interest decreased by 7% in 2009 from 2008, primarily due to the decreases in compensation and benefits, professional services, and advertising and market development expenses. The decrease in expenses was partially offset by severance and facilities charges of $101 million relating to the Company s cost reduction measures and a $16 million Federal Deposit Insurance Corporation (FDIC) special industry assessment.

As a result of the Company s cost reduction measures and ongoing expense discipline, the Company achieved a pre-tax profit margin from continuing operations of 30.4% and return on stockholders equity of 17% in 2009. Net revenue per average full-time equivalent employee was $338,000 in 2009, down 12% from 2008 due to lower net revenues, partially offset by the decrease in average full-time equivalent employees.

2008 Compared to 2007

2008 was also marked by extraordinary market conditions, including downward pressure on home prices, tight credit markets, liquidity concerns, significant volatility and sharp declines in the equity markets, and slow general economic activity. The

Table of Contents

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

Nasdaq Composite Index, Standard & Poor s 500 Index, and the Dow Jones Industrial Average decreased in 2008 by 41%, 38%, and 34%, respectively, with a significant portion of these decreases occurring in the fourth quarter. In addition, the federal funds target rate decreased during 2008 by 4.25% to a range of zero to 0.25% at December 31, 2008.

Net new client assets totaled $113.4 billion for 2008, down 29% from 2007, reflecting deterioration in the equity markets and lower asset valuations. Total client assets were $1.14 trillion at December 31, 2008, down 21% from December 31, 2007. Additionally, clients daily average trades increased 22% to 346,600 in 2008 from 2007.

Net revenues grew by 3% in 2008 from 2007 primarily due to an increase in trading revenue, partially offset by a decrease in other revenue, as well as net impairment losses on securities incurred in 2008. Trading revenue increased in 2008 primarily due to higher trading volume as a result of significant volatility in the equity markets during the year. The decrease in other revenue related to a loss of $29 million on the sale of a corporate debt security and net impairment losses on securities included an other-than-temporary impairment charge of $44 million related to another corporate debt security, which were held in the Company s available for sale portfolio. Asset management and administration fees remained relatively flat in 2008, reflecting the Company s ability to attract and retain clients. Net interest revenue increased slightly in 2008 due to higher levels of interest-earning assets offset by the impact of a decrease in the average net yield earned on these assets.

Although expenses excluding interest remained relatively flat in 2008, compensation and benefits expense decreased reflecting lower incentive compensation, while other expense and occupancy and equipment expense increased. The loss from discontinued operations of $18 million in 2008 relates to the adjustment to finalize the income tax gain related to the sale of U.S. Trust. The Company s pre-tax profit margin from continuing operations was 39.4% and return on stockholders equity was 31% in 2008, which reflected the Company s sustained expense discipline during the year. Return on stockholders equity in 2007 included a $1.2 billion after-tax gain on the sale of U.S. Trust, as well as incremental interest revenue generated from temporarily investing the proceeds from the sale. Net revenue per average full-time equivalent employee was $383,000 in 2008, down 1% from 2007 as net revenue growth was lower than the increase in average full-time equivalent employees.

Certain prior period amounts have been reclassified to conform to the current period presentation. All references to EPS information in this Management s Discussion and Analysis of Financial Condition and Results of Operations reflect diluted EPS unless otherwise noted.

Subsequent Event

On January 26, 2010, the Company completed the sale of 29,670,300 shares of its common stock, $.01 par value, at a public offering price of $19.00 per share. Net proceeds received from the offering were $543 million and will be used to support the Company s balance sheet growth, including expansion of its deposit base and potential migration of certain client balances from money market funds into Schwab Bank.

CURRENT MARKET ENVIRONMENT

The difficult market conditions in 2009 continue to adversely affect the Company s net revenues.

While the Company generally earns asset management and administration fees based upon daily balances of certain client assets, these fees are currently being affected by the low interest rate environment as well. The overall yields on certain Schwab-sponsored money market mutual funds have fallen to levels at or below the management fees on those funds. The Company continues to waive a portion of its management fees, which it began to do in the first quarter of 2009, so that the funds may continue providing a positive return to clients. These and other money market mutual funds may continue to find it necessary to replace maturing securities with lower yielding securities as a result of the current interest rate environment and the overall yield on such funds may fall below or further below the management fees on those funds. To the extent this occurs, the amount of fees waived may increase from fourth quarter 2009 levels, which would adversely affect asset management and administration fees.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

Given the low interest rate environment, the Company s revenue from interest-earning assets, such as securities held and loans to clients, was declining more than the interest that the Company pays on funding sources, such as client deposits. The Company s ability to reduce the interest expense paid on funding sources has been limited as the rates paid on funding sources, which are largely tied to shorter-term interest rates, approached zero. Concurrently, interest-earning asset yields, which are often tied to longer-term interest rates, continued to decline. By the end of 2009, however, the pace of further declines in interest-earning asset yields had slowed significantly.

The Company recorded net impairment charges of $60 million related to certain non-agency residential mortgage-backed securities in 2009 due to credit deterioration of the securities underlying collateral. Further deterioration in the performance of the underlying loans in the Company s residential mortgage-backed securities portfolio could result in the recognition of additional future impairment charges.

RESULTS OF OPERATIONS

The following discussion presents an analysis of the Company s results of operations for the years ended December 31, 2009, 2008, and 2007.

Net Revenues

The Company s major sources of net revenues are asset management and administration fees, net interest revenue, and trading revenue. Asset management and administration fees, net interest revenue, and trading revenue decreased in 2009 as compared to 2008. Asset management and administration fees were relatively flat, while net interest revenue and trading revenue increased in 2008 as compared to 2007.

Year Ended December 31,		**2009**		**2008**		**2007**	
	Growth Rate 2008-2009	**Amount**	**% of Total Net Revenues**	**Amount**	**% of Total Net Revenues**	**Amount**	**% of Total Net Revenues**
Asset management and administration fees							
Mutual fund service fees:							
Proprietary funds (Schwab Funds® and Laudus Funds®)	(25%)	$ 949	23%	$ 1,265	24%	$ 1,167	23%
Mutual Fund OneSource®	(15%)	461	11%	544	11%	621	13%
Clearing and other	(14%)	93	2%	108	2%	104	2%
Investment management and trust fees	(20%)	273	7%	340	7%	378	8%
Other	1%	99	2%	98	2%	88	1%
Asset management and administration fees	(20%)	1,875	45%	2,355	46%	2,358	47%

Net interest revenue							
Interest revenue	(25%)	1,428	34%	1,908	37%	2,270	46%
Interest expense	(9%)	(221)	(5%)	(243)	(5%)	(623)	(13%)
Net interest revenue	(28%)	1,207	29%	1,665	32%	1,647	33%
Trading revenue							
Commissions	(3%)	884	21%	915	18%	755	15%
Principal transactions	(32%)	112	3%	165	3%	105	2%
Trading revenue	(8%)	996	24%	1,080	21%	860	17%
Other	86%	175	3%	94	2%	129	3%
Net impairment losses on securities	36%	(60)	(1%)	(44)	(1%)		
Total net revenues	(19%)	$ 4,193	100%	$ 5,150	100%	$ 4,994	100%

Asset Management and Administration Fees

Asset management and administration fees include mutual fund service fees and fees for other asset-based financial services provided to individual and institutional clients. The Company earns mutual fund service fees for shareholder services, administration, investment management, and transfer agent services (through July 2009) provided to its proprietary funds, and recordkeeping and shareholder services provided to third-party funds. These fees are based upon the daily balances of client

- 18 -

Table of Contents

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

assets invested in the Company s proprietary funds and third-party funds. The Company also earns asset management fees for advisory and managed account services, which are based on the daily balances of client assets subject to the specific fee for service. The fair values of client assets included in proprietary and third-party mutual funds are based on quoted market prices and other observable market data. Asset management and administration fees may vary with changes in the balances of client assets due to market fluctuations and client activity. For discussion of the impact of current market conditions on asset management and administration fees, see Current Market Environment.

As shown in the following table, asset management and administration fees decreased by $480 million, or 20%, in 2009 from 2008. This decrease was due to decreases in mutual fund service fees and investment management and trust fees.

Year Ended December 31,	Growth Rate 2008-2009	2009	2008	2007
Asset management and administration fees before money market mutual fund fee waivers	(11%)	$ 2,099	$ 2,355	$ 2,358
Money market mutual fund fee waivers	N/M	(224)		
Asset management and administration fees	(20%)	$ 1,875	$ 2,355	$ 2,358

N/M Not meaningful.

Mutual fund service fees decreased by $414 million, or 22%, in 2009 from 2008 primarily due to money market mutual fund fee waivers. Given the low interest rate environment in 2009, the overall yields on certain Schwab-sponsored money market mutual funds have fallen to levels at or below the management fees on those funds. As a result, the Company waived a portion of its fees which totaled $224 million in 2009 in order to provide a positive return to clients. There were no money market mutual fund fee waivers in 2008 or 2007. In addition, mutual fund service fees decreased during the year due to lower average balances of client assets invested in the Company s Mutual Fund OneSource funds and mutual fund clearing services as a result of lower average equity market valuations.

Investment management and trust fees decreased by $67 million, or 20%, in 2009 from 2008 due to temporary fee rebates offered to qualifying clients for choosing to participate in advisory or managed account services programs.

Asset management and administration fees remained relatively flat in 2008 from 2007, primarily due to lower third-party mutual fund and advisory service fees, partially offset by higher proprietary fund fees. Mutual Fund OneSource service fees decreased by $77 million, or 12%, in 2008 from 2007 primarily due to lower average balances of client assets invested in the Company s Mutual Fund OneSource funds. The Company s proprietary mutual fund service fees increased $98 million, or 8%, in 2008 from 2007 primarily due to higher average balances of client assets invested in the Company s money market mutual funds. Investment management and trust fees decreased by $38 million, or 10%, in 2008 from 2007 due to lower average balances of client assets participating in advisory and managed account services programs.

Net Interest Revenue

Net interest revenue is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest revenue is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. The Company is positioned so that the consolidated balance sheet produces an increase in net interest revenue when interest rates rise and, conversely, a decrease in net interest revenue when interest rates fall (i.e., interest-earning assets generally reprice more quickly than interest-bearing liabilities). When interest rates fall, the Company attempts to mitigate some of this negative impact by extending the maturities of assets in investment portfolios to lock-in asset yields as well as by lowering rates paid to clients on interest-bearing liabilities. Since the Company establishes the rates paid on certain brokerage client cash balances and deposits from banking clients, as well as the rates charged on receivables from brokerage clients, and also controls the composition of its investment securities, it has some ability to manage its net interest spread. However, the spread is influenced by external factors such as the interest rate environment and competition. For discussion of the impact of current market conditions on net interest revenue, see Current Market Environment.

Table of Contents

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

In clearing its clients trades, Schwab holds cash balances payable to clients. In most cases, Schwab pays its clients interest on cash balances awaiting investment, and may invest these funds and earn interest revenue. Receivables from brokerage clients consist primarily of margin loans to brokerage clients. Margin loans are loans made by Schwab to clients on a secured basis to purchase securities. Pursuant to SEC regulations, client cash balances that are not used for margin lending are generally segregated into investment accounts that are maintained for the exclusive benefit of clients, which are recorded in cash and investments segregated on the Company s consolidated balance sheet.

When investing segregated client cash balances, Schwab must adhere to SEC regulations that restrict investments to securities guaranteed by the full faith and credit of the U.S. government, participation certificates, mortgage-backed securities guaranteed by the Government National Mortgage Association, certificates of deposit issued by U.S. banks and thrifts, and resale agreements collateralized by qualified securities. Additionally, Schwab has established policies for the minimum credit quality and maximum maturity of these investments. Schwab Bank also maintains investment portfolios for liquidity as well as to invest funding from deposits raised in excess of loans to banking clients. Schwab Bank s securities available for sale include residential mortgage-backed securities, U.S. agency notes, corporate debt securities, certificates of deposit, and asset-backed securities. Schwab Bank s securities held to maturity include residential mortgage-backed securities, asset-backed securities, and corporate debt securities. Schwab Bank lends funds to banking clients primarily in the form of mortgage loans. These loans are largely funded by interest-bearing deposits from banking clients.

The Company s interest-earning assets are financed primarily by brokerage client cash balances and deposits from banking clients. Non-interest bearing funding sources include noninterest-bearing brokerage client cash balances and proceeds from stock-lending activities, as well as stockholders equity.

The following table presents net interest revenue information corresponding to interest-earning assets and funding sources on the consolidated balance sheet:

Year Ended December 31,	2009			2008			2007		
	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate	Average Balance	Interest Revenue/ Expense	Average Yield/ Rate
Interest-earning assets:									
Cash and cash equivalents	$ 7,848	$ 33	0.42%	$ 5,217	$ 129	2.47%	$ 4,290	$ 223	5.20%
Cash and investments segregated	16,291	80	0.49%	11,223	280	2.49%	9,991	511	5.11%
Broker-related receivables [1]	363	1	0.28%	428	8	1.87%	595	27	4.54%
Receivables from brokerage clients	6,749	351	5.20%	10,278	612	5.95%	10,736	859	8.00%
Other securities owned	126	1	0.79%						
Securities available for sale [2]	18,558	521	2.81%	11,772	517	4.39%	7,335	399	5.44%
Securities held to maturity	1,915	74	3.86%	22	1	5.86%			
Loans to banking clients	6,671	241	3.61%	4,831	227	4.70%	2,786	169	6.07%
Loans held for sale	110	5	4.55%	66	4	6.06%	37	2	5.41%
Total interest-earning assets	58,631	1,307	2.23%	43,837	1,778	4.06%	35,770	2,190	6.12%

Other interest revenue				121					130				80	
Total interest-earning assets	$	58,631	$	1,428	2.44%	$	43,837	$	1,908	4.35%	$	35,770	$	2,270	6.35%
Funding sources:															
Deposits from banking clients	$	31,249	$	107	0.34%	$	19,203	$	104	0.54%	$	12,046	$	238	1.98%
Payables to brokerage clients		18,002		3	0.02%		15,220		55	0.36%		14,768		329	2.23%
Short-term borrowings							40		1	2.54%					
Long-term debt		1,231		71	5.77%		890		59	6.63%		531		38	7.16%
Total interest-bearing liabilities		50,482		181	0.36%		35,353		219	0.62%		27,345		605	2.21%
Non-interest bearing funding sources		8,149					8,484					8,425			
Provision for credit losses				38					17					3	
Other interest expense				2					7					15	
Total funding sources	$	58,631	$	221	0.38%	$	43,837	$	243	0.55%	$	35,770	$	623	1.74%
Net interest revenue			$	1,207	2.06%			$	1,665	3.80%			$	1,647	4.61%

(1) Includes receivables from brokers, dealers, and clearing organizations.

(2) Amounts have been calculated based on amortized cost.

Net interest revenue decreased in 2009 from 2008 due to the low interest rate environment that persisted throughout the year. As a result, the Company experienced declines in the yields and rates of all interest-earning assets and interest-bearing

Table of Contents

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

liabilities compared to 2008, with yields on interest-earning assets declining more than the cost of funding sources as short-term interest rates approached zero. The mix of interest-earning assets also negatively affected net interest revenue most notably the decrease in average margin loans resulted in higher average balances of cash and investments segregated, a lower yielding asset category. The effect of the low interest rate environment and asset mix was partially offset by the growth in average balances. The Company experienced significant growth in deposits from banking clients, which in turn funded increases in the average balances of securities available for sale, loans to banking clients, and cash and cash equivalents.

Net interest revenue slightly increased in 2008 from 2007 primarily due to higher average balances of interest-earning assets, including increases in securities available for sale and loans to banking clients, offset by lower yields on interest-earning assets. Net interest revenue in 2007 included incremental interest revenue generated from temporarily investing the proceeds from the sale of U.S. Trust. Consistent with declines in general market interest rates prevalent in 2008, the Company experienced declines in the yields of all interest-earning assets during 2008 as compared to 2007. Accordingly, the average interest rates on deposits from banking clients and payables to brokerage clients also decreased during 2008. The decline in the average interest rate on long-term debt was due to the additional debt issued at lower interest rates as part of the Company s capital restructuring in 2007.

Trading Revenue

Trading revenue includes commission and principal transaction revenues. Commission revenues are affected by the number of revenue trades executed and the average revenue earned per revenue trade. Principal transaction revenues are primarily comprised of revenues from client fixed income securities trading activity. Factors that influence principal transaction revenues include the volume of client trades, market price volatility, and competitive pressures.

Trading revenue decreased by $84 million, or 8%, in 2009 from 2008 due to lower daily average revenue trades and lower average revenue earned per revenue trade, as trading volume and market volatility eased from 2008 levels. Trading revenue increased by $220 million, or 26%, in 2008 from 2007 due to higher daily average revenue trades and higher average revenue earned per revenue trade.

As shown in the following table, daily average revenue trades decreased 2% in 2009. The decrease was primarily due to lower volumes of principal transaction and mutual fund trades. Average revenue earned per revenue trade decreased 5% in 2009 from 2008 primarily due to lower average revenue earned per revenue trade for principal transactions and mutual funds, partially offset by higher average revenue earned per revenue trade for option securities. Daily average revenue trades increased 19% in 2008 from 2007 due to higher volumes of equity, mutual fund, option, and principal transaction trades. Average revenue earned per revenue trade increased 4% in 2008 from 2007 primarily due to higher average revenue earned per revenue trade for principal transactions, partially offset by lower average revenue earned per revenue trade for option securities.

Year Ended December 31,	**Growth Rate 2008-2009**	**2009**	**2008**	**2007**

Daily average revenue trades (in thousands) [1]	(2%)	285.8	292.6	245.3
Number of trading days		251.0	251.5	249.5
Average revenue earned per revenue trade	(5%)	$ 13.86	$ 14.53	$ 13.99

(1) Includes all client trades that generate trading revenue (i.e., commission revenue or revenue from fixed income securities trading).

Other Revenue

Other revenue includes gains on the repurchases of long-term debt, realized gains and losses on sales of securities available for sale, gains and losses on sales of loans held for sale, service fees, and software maintenance fees. Other revenue increased by $81 million, or 86%, in 2009 from 2008 primarily due to the recognition of a gain on the repurchase of a portion of the Company s long-term debt. The Company repurchased $98 million of trust preferred securities related to its Junior Subordinated Notes for a cash payment of $67 million in 2009. The repurchase of the trust preferred securities is considered

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

an extinguishment of a portion of the Junior Subordinated Notes and resulted in a gain of $31 million. Other revenue decreased by $35 million, or 27%, in 2008 from 2007 primarily due to a realized loss of $29 million on the sale of a corporate debt security issued by Washington Mutual Bank as a result of its seizure by the FDIC in September 2008. This security was held in the Company s available for sale portfolio.

Net Impairment Losses on Securities

The Company recorded net impairment charges of $60 million related to certain non-agency residential mortgage-backed securities in the Company s available for sale portfolio in 2009 due to credit deterioration of the securities underlying collateral. In 2008, the Company recognized an other-than-temporary impairment charge of $44 million on a corporate debt security issued by Lehman Brothers Holdings, Inc. (Lehman) as a result of Lehman s Chapter 11 bankruptcy petition filing in September 2008. The Company sold this security in October 2008. This security was held in the Company s available for sale portfolio. For further discussion, see Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 5. Securities Available for Sale and Securities Held to Maturity.

Expenses Excluding Interest

As shown in the table below, expenses excluding interest decreased in 2009 from 2008 primarily due to decreases in compensation and benefits expense, professional services expense, and advertising and market development expense. Expenses excluding interest were relatively flat in 2008 compared to 2007 primarily due to a decrease in compensation and benefits expense, partially offset by increases in other expense and occupancy and equipment expense.

Year Ended December 31,	Growth Rate 2008-2009	2009	2008	2007
Compensation and benefits	(7%)	$ 1,544	$ 1,667	$ 1,781
Professional services	(18%)	275	334	324
Occupancy and equipment	6%	318	299	282
Advertising and market development	(21%)	191	243	230
Communications	(2%)	206	211	200
Depreciation and amortization	5%	159	152	156
Other	4%	224	216	168
Total expenses excluding interest	(7%)	$ 2,917	$ 3,122	$ 3,141
Expenses as a percentage of total net revenues:				
Total expenses excluding interest		70%	61%	63%
Advertising and market development		5%	5%	5%

Compensation and Benefits

Compensation and benefits expense includes salaries and wages, incentive compensation, and related employee benefits and taxes. Incentive compensation is based on the achievement of specified performance objectives, including revenue growth and pre-tax profit margin, and therefore will fluctuate with these measures.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

Compensation and benefits expense decreased by $123 million, or 7%, in 2009 from 2008 primarily due to decreases in salaries and wages expense and incentive compensation. Compensation and benefits expense decreased by $114 million, or 6%, in 2008 from 2007 due to decreases in incentive compensation and employee benefits and other expense, offset by an increase in salaries and wages expense. The following table shows a comparison of certain compensation and benefits components and employee data:

Year Ended December 31,	Growth Rate 2008-2009	2009	2008	2007
Salaries and wages	(9%)	$ 930	$ 1,020	$ 955
Incentive compensation [1]	(12%)	355	402	552
Employee benefits and other	6%	259	245	274
Total compensation and benefits expense	(7%)	$ 1,544	$ 1,667	$ 1,781
Compensation and benefits expense as a percentage of total net revenues:				
Salaries and wages		22%	20%	19%
Incentive compensation		8%	8%	11%
Employee benefits and other		7%	4%	6%
Total compensation and benefits expense		37%	32%	36%
Full-time equivalent employees (in thousands) [2]				
At year end	(7%)	12.4	13.4	13.3
Average	(8%)	12.4	13.5	12.9

(1) Includes variable compensation, discretionary bonus costs, stock-based compensation, and employee stock purchase plan expense.

(2) Includes full-time, part-time and temporary employees, and persons employed on a contract basis, and excludes employees of outsourced service providers.

Salaries and wages decreased in 2009 from 2008 primarily due to lower expense as a result of decreases in full-time employees and persons employed on a contract basis, offset by severance expense of $58 million relating to the Company s cost reduction measures. Incentive compensation decreased in 2009 from 2008 primarily due to lower variable compensation based on actual performance in 2009. In addition, incentive compensation in 2008 included long-term incentive plan compensation. The last performance period under the Company s long-term incentive program ended on December 31, 2008.

Salaries and wages increased in 2008 from 2007 due to higher severance expense. Incentive compensation decreased in 2008 from 2007 primarily due to lower long-term incentive plan compensation, discretionary bonus costs, and variable compensation. Discretionary bonus costs and variable compensation decreased in 2008 from 2007 based on actual performance in 2008. Long-term incentive plan compensation decreased in 2008 from 2007 primarily due to the maturity of certain plan units that matured in 2007. Employee benefits and other expense

decreased in 2008 from 2007 primarily due to a decrease in deferred compensation.

Expenses Excluding Compensation and Benefits

Professional services expense decreased in 2009 from 2008 primarily due to a decrease in fees paid to outsourced service providers and consultants.

Occupancy and equipment expense increased in 2009 from 2008 primarily due to facilities charges of $43 million relating to the Company s cost reduction measures, partially offset by lower purchases of equipment. Occupancy and equipment expense increased in 2008 from 2007 primarily due to increases in data processing equipment and maintenance expense of $12 million and occupancy expense of $5 million.

Advertising and market development expense decreased in 2009 from 2008 primarily due to lower media spending relating to the Company s Talk to Chuck national advertising campaign. Media spending and marketing expense decreased by $39 million and $13 million, respectively. Advertising and market development expense increased in 2008 from 2007 due to higher media spending related to the Talk to Chuck national advertising campaign.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

Other expense increased in 2009 from 2008 primarily due to a $16 million FDIC special industry assessment and higher FDIC insurance premiums caused by higher deposits from banking clients, partially offset by a decrease in employee travel expenses and insurance recovery of certain costs incurred in 2008. Other expense increased in 2008 from 2007 primarily due to charges of $29 million for individual client complaints and arbitration claims relating to Schwab YieldPlus Fund® investments.

Taxes on Income

The Company s effective income tax rate on income from continuing operations before taxes was 38.3% in 2009, 39.3% in 2008, and 39.6% in 2007. The decrease in the Company s effective income tax rate on income from continuing operations from 2008 was primarily due to lower effective state income tax rates.

Segment Information

The Company provides financial services to individuals and institutional clients through two segments Investor Services and Institutional Services. The Investor Services segment includes the Company s retail brokerage and banking operations. The Institutional Services segment provides custodial, trading, and support services to independent investment advisors, as well as retirement plan services, plan administrator services, equity compensation plan services, and mutual fund clearing services. In addition, the Institutional Services segment supports the availability of Schwab proprietary mutual funds and collective trust funds on third-party platforms. The Company evaluates the performance of its segments on a pre-tax basis, excluding items such as impairment charges on non-financial assets, discontinued operations, extraordinary items, and other significant restructuring charges. Segment assets and liabilities are not disclosed because the balances are not used for evaluating segment performance and deciding how to allocate resources to segments.

Financial information for the Company s reportable segments is presented in the following table:

Year Ended December 31,	Growth Rate 2008-2009	2009	2008	2007
Investor Services:				
Net revenues	(20%)	$ 2,710	$ 3,385	$ 3,352
Expenses excluding interest	(10%)	1,906	2,107	2,115
Contribution margin	(37%)	$ 804	$ 1,278	$ 1,237
Institutional Services:				
Net revenues	(15%)	$ 1,483	$ 1,754	$ 1,627
Expenses excluding interest	(7%)	929	1,001	1,006

Contribution margin	(26%)	$	554	$	753	$	621
Unallocated:							
Net revenues	N/M	$		$	11	$	15
Expenses excluding interest	N/M		82		14		20
Contribution margin	N/M	$	(82)	$	(3)	$	(5)
Total:							
Net revenues	(19%)	$	4,193	$	5,150	$	4,994
Expenses excluding interest	(7%)		2,917		3,122		3,141
Contribution margin	(37%)	$	1,276	$	2,028	$	1,853

N/M Not meaningful.

Investor Services

Net revenues decreased by $675 million, or 20%, in 2009 from 2008 due to decreases in asset management and administration fees and net interest revenue, partially offset by an increase in other revenue. Asset management and administration fees decreased primarily due to lower average asset valuations and money market mutual fund fee waivers. Net interest revenue decreased as a result of the low interest rate environment, partially offset by higher average balances of interest-earning

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

assets. The increase in other revenue was primarily due to the recognition of a gain on the repurchase of a portion of the Company s long-term debt. In addition, other revenue in 2008 included a loss on the sale of a corporate debt security held in the Company s available for sale portfolio. Net revenues were also negatively impacted by net impairment charges relating to certain residential mortgage-backed securities in the Company s available for sale portfolio. Expenses excluding interest decreased by $201 million, or 10%, in 2009 from 2008, primarily due to lower compensation and benefits, professional services, and advertising and market development expenses.

Net revenues increased by $33 million, or 1%, in 2008 from 2007 primarily due to increases in trading revenue and net interest revenue, partially offset by a decrease in other revenue. Trading revenue increased due to higher daily average revenue trades. Net interest revenue increased due to higher levels of interest-earning assets, partially offset by the impact of a decrease in the average net yield earned on these assets. The decrease in other revenue was primarily due to a loss on the sale of a corporate debt security. The increase in net revenues was also offset by an other-than-temporary impairment charge related to another corporate debt security. These securities were held in the Company s available for sale portfolio. Expenses excluding interest were relatively flat in 2008 as compared to 2007 as a result of lower incentive compensation expense, offset by a charge for individual client complaints and arbitration claims related to Schwab YieldPlus Fund investments in 2008.

Institutional Services

Net revenues decreased by $271 million, or 15%, in 2009 from 2008 due to decreases in asset management and administration fees, net interest revenue, and trading revenue, partially offset by an increase in other revenue. Asset management and administration fees decreased primarily due to lower average asset valuations and money market mutual fund fee waivers. Net interest revenue decreased as a result of the low interest rate environment, partially offset by higher average balances of interest-earning assets. Trading revenue decreased due to lower daily average revenue trades and lower average revenue earned per revenue trade. Net impairment losses on securities increased due to credit deterioration of certain mortgage-backed securities underlying collateral. The increase in other revenue was primarily due to the recognition of a gain on the repurchase of a portion of the Company s long-term debt. Expenses excluding interest decreased by $72 million, or 7%, in 2009 from 2008 primarily due to lower compensation and benefits and professional services expenses, partially offset by an increase in other expense.

Net revenues increased by $127 million, or 8%, in 2008 from 2007 due to increases in trading revenue and asset management and administration fees, offset by a decrease in net interest revenue. Trading revenue increased due to higher daily average revenue trades. Asset management and administration fees increased as a result of higher average balances of client assets invested in the Company s proprietary funds. Net interest revenue decreased due to the impact of a decrease in the average net yield earned on interest-earning assets. Expenses excluding interest were relatively flat in 2008 as compared to 2007 as a result of lower incentive compensation expense, offset by increased costs to service additional corporate retirement plan participants resulting from the acquisition of the 401(k) Company in 2007.

Unallocated

Expenses excluding interest in 2009 include facilities and severance charges relating to the Company s cost reduction measures.

Discontinued Operations

In July 2007, the Company sold all of the outstanding common stock of U.S. Trust for $3.3 billion in cash and recognized a gain on the sale of $1.9 billion, or $1.2 billion after tax. In connection with the determination of the final income tax gain on the sale of U.S. Trust, the Company recorded additional tax expense of $18 million in the second quarter of 2008.

LIQUIDITY AND CAPITAL RESOURCES

CSC conducts substantially all of its business through its wholly-owned subsidiaries. The capital structure among CSC and its subsidiaries is designed to provide each entity with capital and liquidity to meet its operational needs and regulatory requirements.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

CSC is a savings and loan holding company and Schwab Bank, CSC s depository institution, is a federal savings bank. CSC and Schwab Bank are both subject to supervision and regulation by the Office of Thrift Supervision.

Liquidity

CSC

As a savings and loan holding company, CSC is not subject to specific statutory capital requirements. However, CSC is required to maintain capital that is sufficient to support the holding company and its subsidiaries business activities, and the risks inherent in those activities. To manage capital adequacy, CSC currently utilizes a target Tier 1 Leverage Ratio, as defined by the Board of Governors of the Federal Reserve System, of at least 6%. At December 31, 2009, CSC s Tier 1 Leverage Ratio was 7.1%.

CSC s liquidity needs are generally met through cash generated by its subsidiaries, as well as cash provided by external financing. CSC maintains excess liquidity in the form of overnight cash deposits and short-term investments to cover daily funding needs and to support growth in the Company s business. Generally, CSC does not hold liquidity at its subsidiaries in excess of amounts deemed sufficient to support the subsidiaries operations, including any regulatory capital requirements. Schwab and Schwab Bank are subject to regulatory requirements that may restrict them from certain transactions with CSC. Management believes that funds generated by the operations of CSC s subsidiaries will continue to be the primary funding source in meeting CSC s liquidity needs, providing adequate liquidity to meet Schwab Bank s capital guidelines, and maintaining Schwab s net capital.

CSC has liquidity needs that arise from its Senior Medium-Term Notes, Series A (Medium-Term Notes), Junior Subordinated Notes, and Senior Notes, as well as from the funding of cash dividends, acquisitions, and other investments. The Medium-Term Notes, of which $450 million were outstanding at December 31, 2009, have maturities ranging from 2010 to 2017 and fixed interest rates ranging from 6.375% to 8.05% with interest payable semiannually. The Medium-Term Notes are rated A2 by Moody s Investors Service (Moody s), A by Standard & Poor s Ratings Group (Standard & Poor s), and A by Fitch Ratings, Ltd. (Fitch). At December 31, 2009, $202 million of Junior Subordinated Notes were outstanding and have a fixed interest rate of 7.50% until 2017 and a floating rate thereafter. The Junior Subordinated Notes are not rated, however the trust preferred securities related to these notes are rated Baa1 by Moody s, BBB+ by Standard & Poor s, and BBB+ by Fitch. In 2009, CSC repurchased $98 million of trust preferred securities related to its Junior Subordinated Notes for a cash payment of $67 million. The repurchase of the trust preferred securities is considered an extinguishment of a portion of the Junior Subordinated Notes and resulted in a gain of $31 million.

CSC has a universal automatic shelf registration statement on file with the SEC which enables CSC to issue debt, equity and other securities. In June 2009, the Company issued $750 million of Senior Notes that mature in 2014 under this registration statement. The Senior Notes have a fixed interest rate of 4.950% with interest payable semiannually. The Senior Notes are rated A2 by Moody s, A by Standard & Poor s, and A by Fitch. In January 2010, the Company completed an equity offering of 29,670,300 shares of its common stock under this registration statement. For further discussion of the equity offering, see Subsequent Event.

CSC has authorization from its Board of Directors to issue unsecured commercial paper notes (Commercial Paper Notes) not to exceed $1.5 billion. Management has set a current limit for the commercial paper program of $800 million. The maturities of the Commercial Paper Notes may vary, but are not to exceed 270 days from the date of issue. The commercial paper is not redeemable prior to maturity and cannot be voluntarily prepaid. The proceeds of the commercial paper program are to be used for general corporate purposes. There were no Commercial Paper Notes outstanding at December 31, 2009. CSC s ratings for these short-term borrowings are P-1 by Moody s, A-1 by Standard & Poor s, and F1 by Fitch.

CSC maintains an $800 million committed, unsecured credit facility with a group of 12 banks, which is scheduled to expire in June 2010. This facility replaced a similar facility that expired in June 2009. These facilities were unused in 2009. The funds under this facility are available for general corporate purposes, including repayment of the Commercial Paper Notes discussed above. The amount of this facility that CSC can use for other general corporate purposes is reduced by the amount of any

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

Commercial Paper Notes outstanding. The financial covenants under this facility require Schwab to maintain a minimum net capital ratio, as defined, Schwab Bank to be well capitalized, as defined, and CSC to maintain a minimum level of stockholders equity. At December 31, 2009, the minimum level of stockholders equity required under this facility was $3.3 billion. Management believes that these restrictions will not have a material effect on CSC s ability to meet foreseeable dividend or funding requirements.

CSC also has direct access to $744 million of the $824 million uncommitted, unsecured bank credit lines discussed below, that are primarily utilized by Schwab to manage short-term liquidity. These lines were not used by CSC in 2009.

In addition, Schwab provides CSC with a $1.0 billion credit facility maturing in December 2011. No funds were drawn under this facility at December 31, 2009.

Schwab

Schwab is subject to regulatory requirements that are intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit Schwab from repaying subordinated borrowings from CSC, paying cash dividends, or making unsecured advances or loans to its parent company or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement of $250,000. At December 31, 2009, Schwab s net capital was $1.1 billion (11% of aggregate debit balances), which was $868 million in excess of its minimum required net capital and $580 million in excess of 5% of aggregate debit balances.

Most of Schwab s assets are readily convertible to cash, consisting primarily of short-term (i.e., less than 150 days) investment-grade, interest-earning investments (the majority of which are segregated for the exclusive benefit of clients pursuant to regulatory requirements), receivables from brokerage clients, and receivables from brokers, dealers, and clearing organizations. Client margin loans are demand loan obligations secured by readily marketable securities. Receivables from and payables to brokers, dealers, and clearing organizations primarily represent current open transactions, which usually settle, or can be closed out, within a few business days.

Liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in brokerage client accounts, which were $25.3 billion and $19.2 billion at December 31, 2009 and 2008, respectively. Management believes that brokerage client cash balances and operating earnings will continue to be the primary sources of liquidity for Schwab in the future.

Schwab has a finance lease obligation related to an office building and land under a 20-year lease. The remaining finance lease obligation of $111 million at December 31, 2009, is being reduced by a portion of the lease payments over the remaining lease term of approximately 15 years.

To manage short-term liquidity, Schwab maintains uncommitted, unsecured bank credit lines with a group of seven banks totaling $824 million at December 31, 2009. The need for short-term borrowings arises primarily from timing differences between cash flow requirements, scheduled liquidation of interest-bearing investments, and movements of cash to meet segregation requirements. Schwab used such borrowings for ten days in 2009, with daily amounts borrowed averaging $18 million. There were no borrowings outstanding under these lines at December 31, 2009.

To satisfy the margin requirement of client option transactions with the Options Clearing Corporation (OCC), Schwab has unsecured standby letter of credit agreements (LOCs) with seven banks in favor of the OCC aggregating $445 million at December 31, 2009. In connection with its securities lending activities, Schwab is required to provide collateral to certain brokerage clients. Schwab satisfies the collateral requirements by arranging LOCs, in favor of these brokerage clients, which are issued by multiple banks. At December 31, 2009, the aggregate face amount of these LOCs totaled $37 million. There were no funds drawn under any of these LOCs during 2009.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

To manage Schwab s regulatory capital requirement, CSC provides Schwab with a $1.4 billion subordinated revolving credit facility which is scheduled to expire in March 2010. The amount outstanding under this facility at December 31, 2009, was $220 million. Borrowings under this subordinated lending arrangement qualify as regulatory capital for Schwab.

In addition, CSC provides Schwab with a $1.5 billion credit facility which is scheduled to expire in 2011. Borrowings under this facility do not qualify as regulatory capital for Schwab. There were no funds drawn under this facility at December 31, 2009.

Schwab Bank

Schwab Bank is required to maintain a capital level that at least equals minimum capital levels specified in federal banking laws and regulations. Failure to meet the minimum levels will result in certain mandatory, and possibly additional discretionary, actions by the regulators that, if undertaken, could have a direct material effect on Schwab Bank. Based on its regulatory capital ratios at December 31, 2009, Schwab Bank is considered well capitalized. Schwab Bank s regulatory capital and ratios at December 31, 2009, are as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Tier 1 Capital	$ 2,724	18.3%	$ 595	4.0%	$ 893	6.0%
Total Capital	$ 2,770	18.6%	$ 1,191	8.0%	$ 1,488	10.0%
Tier 1 Leverage	$ 2,724	6.3%	$ 1,737	4.0%	$ 2,171	5.0%
Tangible Equity	$ 2,724	6.3%	$ 868	2.0%	N/A	

N/A Not applicable.

In light of the evolving regulatory environment and capitalization trends observed across the banking industry, management has established a target Tier 1 Leverage Ratio for Schwab Bank of at least 7.5% beginning in the first quarter of 2010. Schwab Bank s current liquidity needs are generally met through deposits from banking clients and equity capital.

The excess cash held in certain Schwab brokerage client accounts is swept into deposit accounts at Schwab Bank. At December 31, 2009, these balances totaled $23.0 billion.

Schwab Bank has access to traditional funding sources such as deposits, federal funds purchased, and repurchase agreements. Additionally, Schwab Bank has access to short-term funding through the Federal Reserve Bank (FRB) discount window. Amounts available under the FRB discount window are dependent on the fair value of certain of Schwab Bank s securities available for sale and securities held to maturity that are pledged as collateral. At December 31, 2009, $974 million was available under this arrangement. There were no funds drawn under this arrangement during 2009.

Schwab Bank maintains a credit facility with the Federal Home Loan Bank System (FHLB). Amounts available under this facility are dependent on the amount of Schwab Bank s residential real estate mortgages and home equity lines of credit that are pledged as collateral. At December 31, 2009, $2.9 billion was available under this facility. There were no funds drawn under this facility during 2009.

CSC provides Schwab Bank with a $100 million short-term credit facility which is scheduled to expire in December 2011. Borrowings under this facility do not qualify as regulatory capital for Schwab Bank. There were no funds drawn under this facility during 2009.

Capital Resources

The Company monitors both the relative composition and absolute level of its capital structure. Management is focused on limiting the Company s use of capital and currently targets a long-term debt to total financial capital ratio not to exceed 30%.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

The Company s total financial capital (long-term debt plus stockholders equity) at December 31, 2009, was $6.6 billion, up $1.6 billion, or 33%, from December 31, 2008.

At December 31, 2009, the Company had long-term debt of $1.5 billion, or 23% of total financial capital, that bears interest at a weighted-average rate of 5.97%. At December 31, 2008, the Company had long-term debt of $883 million, or 18% of total financial capital. In June 2009, the Company issued $750 million of Senior Notes that mature in 2014 and have a fixed interest rate of 4.950%. The Company repaid $13 million and $20 million of long-term debt in 2009 and 2008, respectively. In addition, the Company repurchased $98 million of trust preferred securities related to its Junior Subordinated Notes for a cash payment of $67 million in 2009, resulting in a gain of $31 million.

The Company s cash position (reported as cash and cash equivalents on its consolidated balance sheet) and cash flows are affected by changes in brokerage client cash balances and the associated amounts required to be segregated under regulatory guidelines. Timing differences between cash and investments actually segregated on a given date and the amount required to be segregated for that date may arise in the ordinary course of business and are addressed by the Company in accordance with applicable regulations. Other factors which affect the Company s cash position and cash flows include investment activity in securities, levels of capital expenditures, acquisition and divestiture activity, banking client deposit activity, brokerage and banking client loan activity, financing activity in long-term debt, payments of dividends, and repurchases of CSC s common stock. The combination of these factors can cause significant fluctuations in the levels of cash and cash equivalents during specific time periods.

Capital Expenditures

The Company s capital expenditures were $139 million in 2009 and $196 million in 2008. Capital expenditures as a percentage of net revenues were 3% and 4% in 2009 and 2008, respectively. Capital expenditures in 2009 were primarily for leasehold improvements, software and equipment relating to the Company s information technology systems, and building improvements. Capital expenditures in 2008 were primarily for software and equipment relating to the Company s information technology systems, buildings, and leasehold improvements. Capital expenditures include capitalized costs for developing internal-use software of $16 million in 2009 and $46 million in 2008.

Management currently anticipates that 2010 capital expenditures will be approximately 5% lower than 2009 spending primarily due to decreased spending on leasehold improvements, partially offset by increased costs for developing internal-use software. As has been the case in recent years, the Company may adjust its capital expenditures from period to period as business conditions change. Management believes that funds generated by its operations will continue to be the primary funding source of its capital expenditures.

Dividends

CSC paid common stock cash dividends of $279 million and $253 million in 2009 and 2008, respectively. Since the initial dividend in 1989, CSC has paid 83 consecutive quarterly dividends and has increased the quarterly dividend 19 times, including a 20% increase in the third quarter of 2008. Since 1989, dividends have increased by a 27% compounded annual growth rate, excluding the special cash dividend of $1.00 per common share in 2007. CSC paid common stock dividends of $.24, $.22, and $1.20 per share in 2009, 2008, and 2007, respectively. While the payment and amount of dividends are at the discretion of the Board, subject to certain regulatory and other restrictions, the Company currently targets its cash dividend at approximately 20% to 30% of net income.

Share Repurchases

There were no repurchases of CSC s common stock in 2009. CSC repurchased 17 million shares of its common stock for $350 million in 2008. As of December 31, 2009, CSC had remaining authority from the Board of Directors to repurchase up to $596 million of its common stock.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

Off-Balance-Sheet Arrangements

The Company enters into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of its clients. These arrangements include firm commitments to extend credit. Additionally, the Company enters into guarantees and other similar arrangements as part of transactions in the ordinary course of business. For information on each of these arrangements, see Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 13. Commitments and Contingent Liabilities.

Contractual Obligations

A summary of the Company s principal contractual obligations as of December 31, 2009, is shown in the following table. Excluded from this table are liabilities recorded on the consolidated balance sheet that are generally short-term in nature (e.g., payables to brokers, dealers, and clearing organizations) or without contractual payment terms (e.g., deposits from banking clients, payables to brokerage clients, and deferred compensation). Management believes that funds generated by its continuing operations, as well as cash provided by external financing, will continue to be the primary funding sources in meeting these obligations.

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Credit-related financial instruments [1]	$ 832	$ 80	$ 918	$ 3,544	$ 5,374
Long-term debt [2]	276	137	867	546	1,826
Leases [3]	126	168	99	218	611
Purchase obligations [4]	130	61	1		192
Total	$ 1,364	$ 446	$ 1,885	$ 4,308	$ 8,003

[1] Represents Schwab Bank s firm commitments to extend credit to banking clients.

[2] Includes estimated future interest payments through 2017. The Junior Subordinated Notes have a fixed interest rate of 7.50% until 2017 and a floating rate from 2018 to 2067. Based on the current interest rate of 7.50% and no repayments of principal, the estimated future interest payments on the Junior Subordinated Notes in 2018 to 2067 would be $15 million per year. Amounts exclude maturities under a finance lease obligation, unamortized discounts, and the effect of interest rate swaps.

[3] Represents minimum rental commitments, net of sublease commitments, and includes facilities under the Company s past restructuring initiatives and rental commitments under a finance lease obligation.

(4) Consists of purchase obligations for services such as advertising and marketing, telecommunications, professional services, and hardware- and software-related agreements. Includes purchase obligations which can be canceled by the Company without penalty.

RISK MANAGEMENT

Overview

The Company s business activities expose it to a variety of risks including technology, operations, credit, market, liquidity, legal, and reputational risk. Identification and management of these risks are essential to the success and financial soundness of the Company.

Senior management takes an active role in the Company s risk management process and has developed policies and procedures under which specific business and control units are responsible for identifying, measuring, and controlling various risks. Oversight of risk management has been delegated to the Global Risk Committee, which is comprised of senior managers of major business and control functions. The Global Risk Committee is responsible for reviewing and monitoring the Company s risk exposures and leading the continued development of the Company s risk management policies and practices.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

Functional risk sub-committees focusing on specific areas of risk report into the Global Risk Committee. These sub-committees include the:

- Corporate Asset-Liability Management and Pricing Committee, which focuses on the Company s liquidity, capital resources, interest rate risk, and investments;
- Credit and Market Risk Oversight Committee, which focuses on the credit exposures resulting from client activity (e.g., margin lending activities and loans to banking clients), the investing activities of certain of the Company s proprietary funds, corporate credit activities (e.g., counterparty and corporate investing activities), and market risk resulting from the Company taking positions in certain securities to facilitate client trading activity;
- Information Security and Privacy Steering Committee, which oversees information security and privacy programs and policies;
- Investment Management and ERISA Risk Committee, which oversees activities in which the Company and its principals operate in an investment advisory capacity or as an ERISA fiduciary; and
- Investment Products Review Board, which provides senior level oversight of investment products and services made available to clients.

The Global Risk Committee reports regularly to the Audit Committee of the Board of Directors (Audit Committee), which reviews major risk exposures and the steps management has taken to monitor and control such exposures.

The Company s Disclosure Committee is responsible for monitoring and evaluating the effectiveness of the Company s (a) disclosure controls and procedures and (b) internal control over financial reporting as of the end of each fiscal quarter. The Disclosure Committee reports on this evaluation to the CEO and CFO prior to their certification required by Sections 302 and 906 of the Sarbanes Oxley Act of 2002.

The Company s compliance, finance, internal audit, legal, and risk and credit management departments assist management and the various risk committees in evaluating, testing, and monitoring the Company s risk management.

Risk is inherent in the Company s business. Consequently, despite the Company s efforts to identify areas of risk and implement risk management policies and procedures, there can be no assurance that the Company will not suffer unexpected losses due to operating or other risks. The following discussion highlights the Company s policies and procedures for identification, assessment, and management of the principal areas of risk in its operations.

Technology and Operating Risk

Technology and operating risk is the potential for loss due to deficiencies in control processes or technology systems that constrain the Company s ability to gather, process and communicate information and process client transactions efficiently and securely, without interruptions. The Company s operations are highly dependent on the integrity of its technology systems and the Company s success depends, in part, on its ability to make timely enhancements and additions to its technology in anticipation of evolving client needs. To the extent the Company experiences system interruptions, errors or downtime (which could result from a variety of causes, including changes in client use patterns, technological failure, changes to its systems, linkages with third-party systems, and power failures), the Company s business and operations could be significantly negatively impacted. Additionally, rapid increases in client demand may strain the Company s ability to enhance its technology and expand its operating capacity. To minimize business interruptions, Schwab has two data centers intended, in part, to further improve the recovery of business processing in the event of an emergency. The Company is committed to an ongoing process of upgrading, enhancing, and testing its technology systems. This effort is focused on meeting client needs, meeting market and regulatory changes, and deploying standardized technology platforms.

Technology and operating risk also includes the risk of human error, employee misconduct, external fraud, computer viruses, terrorist attack, and natural disaster. Employee misconduct could include fraud and misappropriation of client or Company assets, improper use or disclosure of confidential client or Company information, and unauthorized activities, such as transactions exceeding acceptable risks or authorized limits. External fraud includes misappropriation of client or Company assets by third parties, including through unauthorized access to Company systems and data and client accounts. The frequency and sophistication of such fraud attempts continue to increase.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

The Company has specific policies and procedures to identify and manage operational risk, and uses periodic risk self-assessments and internal audit reviews to evaluate the effectiveness of these internal controls. The Company maintains backup and recovery functions, including facilities for backup and communications, and conducts periodic testing of disaster recovery plans. The Company also maintains policies and procedures and technology to protect against fraud and unauthorized access to systems and data.

Despite the Company s risk management efforts, it is not always possible to deter or prevent technological or operational failure, or fraud or other misconduct, and the precautions taken by the Company may not be effective in all cases. The Company may be subject to litigation, losses, and regulatory actions in such cases, and may be required to expend significant additional resources to remediate vulnerabilities or other exposures.

The Company also faces technology and operating risk when it employs the services of various external vendors, including domestic and international outsourcing of certain technology, processing, and support functions. The Company manages its exposure to external vendor risk through contractual provisions, control standards, and ongoing monitoring of vendor performance. The Company maintains policies and procedures regarding the standard of care expected with Company data, whether the data is internal company information, employee information, or non-public client information. The Company clearly defines for employees, contractors, and vendors the Company s expected standards of care for confidential data. Regular training is provided by the Company in regard to data security.

The Company is actively engaged in the research and development of new technologies, services, and products. The Company endeavors to protect its research and development efforts, and its brands, through the use of copyrights, patents, trade secrets, and contracts.

Credit Risk

Credit risk is the potential for loss due to a borrower, counterparty, or issuer failing to perform its contractual obligations. The Company s direct exposure to credit risk mainly results from margin lending activities, securities lending activities, mortgage lending activities, its role as a counterparty in financial contracts and investing activities, and indirectly from the investing activities of certain of the proprietary funds that the Company sponsors. To manage the risks of such losses, the Company has established policies and procedures which include: establishing and reviewing credit limits, monitoring of credit limits and quality of counterparties, and adjusting margin requirements for certain securities. Most of the Company s credit extensions are supported by collateral arrangements. Collateral arrangements relating to margin loans, securities lending agreements, and resale agreements are subject to requirements that provide additional collateral in the event that market fluctuations result in declines in the value of collateral received.

The Company s credit risk exposure related to loans to banking clients is actively managed through individual and portfolio reviews performed by management. Management regularly reviews asset quality including concentrations, delinquencies, non-performing loans, losses, and recoveries. All are factors in the determination of an appropriate allowance for credit losses, which is reviewed quarterly by senior management.

The Company s mortgage loan portfolios primarily include first lien 3-, 5- and 7-year adjustable rate residential mortgage loans (First Mortgage portfolio) of $3.7 billion and home equity lines of credit (HELOC portfolio) of $3.3 billion at December 31, 2009.

The Company s First Mortgage portfolio underwriting requirements are generally consistent with the underwriting requirements in the secondary market for loan portfolios. The Company s guidelines include maximum loan-to-value (LTV) ratios, cash out limits, and minimum Fair Issac & Company (FICO) credit scores. The specific guidelines are dependent on the individual characteristics of a loan (for example, whether the property is a primary or secondary residence, whether the loan is for investment property, whether the loan is for an initial purchase of a home or refinance of an existing home, and whether the loan is conforming or jumbo). These credit underwriting standards have limited the exposure to the types of loans that experienced high foreclosures and loss rates elsewhere in the industry during 2009 and 2008. There have been no

Table of Contents

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

significant changes to the LTV ratio or FICO credit score guidelines related to the Company s First Mortgage or HELOC portfolios during 2009. At December 31, 2009, the weighted-average originated LTV ratios were 62% and 59% for the First Mortgage and HELOC portfolios, respectively, and the weighted-average originated FICO credit scores were 760 and 767 for the First Mortgage and HELOC portfolios, respectively.

The Company does not offer loans that allow for negative amortization and does not originate or purchase subprime loans (generally defined as extensions of credit to borrowers with a FICO credit score of less than 620 at origination), unless the borrower has compensating credit factors. At December 31, 2009, approximately 2% of both the First Mortgage and HELOC portfolios consisted of loans to borrowers with FICO credit scores of less than 620.

The following table presents certain of the Company s loan quality metrics as a percentage of total outstanding loans:

December 31,	2009	2008
Loan delinquencies [1]	0.87%	0.54%
Nonaccrual loans	0.46%	0.13%
Allowance for credit losses	0.61%	0.33%

(1) Loan delinquencies are defined as loans that are 30 days or more past due.

The Company has exposure to credit risk associated with its securities available for sale and securities held to maturity portfolios, whose fair values totaled $22.1 billion and $6.9 billion at December 31, 2009, respectively. These portfolios include U.S. agency and non-agency residential mortgage-backed securities, U.S. agency notes, corporate debt securities, certificates of deposit, and asset-backed securities. U.S. agency residential mortgage-backed securities do not have explicit credit ratings, however management considers these to be of the highest credit quality and rating given the guarantee of principal and interest by the U.S. agencies. Included in non-agency residential mortgage-backed securities are securities collateralized by loans that are considered to be Prime (defined by the Company as loans to borrowers with a FICO credit score of 620 or higher at origination), and Alt-A (defined by the Company as Prime loans with reduced documentation at origination).

The table below presents the credit ratings for U.S. agency and non-agency residential mortgage-backed securities available for sale and securities held to maturity, including Prime and Alt-A residential mortgage-backed securities, by year of origination. In some instances securities have divergent ratings from Moody s, Fitch, or Standard & Poor s. In these instances, the Company has used the lowest rating as of December 31, 2009, for purposes of presenting the table below. Residential mortgage-backed securities, particularly Alt-A securities, experienced deteriorating credit characteristics, including increased delinquencies and valuation pressure, in 2009. For a discussion of the impact of current market conditions on residential mortgage-backed securities, see Current Market Environment.

Table of Contents

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

	AAA		AA to A		BBB		BB or Lower		Total	
	Amortized Cost	Net Unrealized Gain (Loss)	Amortized Cost	Net Unrealized Loss	Amortized Cost	Net Unrealized Loss	Amortized Cost	Net Unrealized Loss	Amortized Cost	Net Unrealized Gain (Loss)
U.S. agency residential mortgage-backed securities:										
2005	$ 584	$ 6	$	$	$	$	$	$	$ 584	$ 6
2006	390	1							390	1
2007	709	25							709	25
2008	4,360	129							4,360	129
2009	10,663	26							10,663	26
Total	16,706	187							16,706	187
Non-agency residential mortgage-backed securities:										
2003	80	(7)	8	(1)					88	(8)
2004	134	(9)	84	(13)	9	(5)			227	(27)
2005	64	(6)	303	(37)	236	(50)	366	(91)	969	(184)
2006	13		37	(5)			644	(201)	694	(206)
2007	93	(4)			34	(5)	355	(85)	482	(94)
Total	384	(26)	432	(56)	279	(60)	1,365	(377)	2,460	(519)
Total residential mortgage-backed securities	$ 17,090	$ 161	$ 432	$ (56)	$ 279	$ (60)	$ 1,365	$ (377)	$ 19,166	$ (332)
% of Total residential mortgage-backed securities	89%		2%		2%		7%		100%	

At December 31, 2009, all of the corporate debt securities and non-mortgage asset-backed securities were rated investment grade (defined as a rating equivalent to a Moody s rating of Baa or higher, or a Standard & Poor s rating of BBB- or higher).

Schwab performs clearing services for all securities transactions in its client accounts. Schwab has exposure to credit risk due to its obligation to settle transactions with clearing corporations, mutual funds, and other financial institutions even if Schwab s client or a counterparty fails to meet its obligations to Schwab.

Concentration Risk

The Company has exposure to concentration risk when holding large positions in financial instruments collateralized by assets with similar economic characteristics or in securities of a single issuer or industry.

The fair value of the Company s investments in residential mortgage-backed securities totaled $18.8 billion at December 31, 2009. Of these, $16.9 billion were U.S. agency securities and $1.9 billion were non-agency securities. The U.S. agency securities are included in securities available for sale and securities held to maturity and the non-agency securities are included in securities available for sale. Included in non-agency residential mortgage-backed securities are securities collateralized by Alt-A loans. At December 31, 2009, the amortized cost and fair value of Alt-A mortgage-backed securities were $628 million and $387 million, respectively.

The Company s investments in corporate debt securities and commercial paper totaled $5.6 billion at December 31, 2009, with the majority issued by institutions in the financial services industry. These securities are included in securities available for sale, securities held to maturity, cash and investments segregated and on deposit for regulatory purposes, cash and cash equivalents, and other securities owned in the Company s consolidated balance sheets. Included in corporate debt securities and commercial paper at December 31, 2009, were $3.2 billion of securities issued by financial institutions and guaranteed under the FDIC Temporary Liquidity Guarantee Program.

The Company s loans to banking clients include $3.7 billion of first lien residential real estate mortgage loans at December 31, 2009. Approximately 75% of these mortgages consisted of loans with interest-only payment terms. The interest

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

rates on approximately 75% of these interest-only loans are not scheduled to reset for three or more years. The Company s interest-only loans do not include interest terms described as temporary introductory rates below current market rates. At December 31, 2009, 39% of the residential real estate mortgages and 48% of the home equity lines of credit balances were secured by properties which are located in California.

The Company also has exposure to concentration risk from its margin and securities lending activities collateralized by securities of a single issuer or industry.

The Company has indirect exposure to U.S. Government and agency securities held as collateral to secure its resale agreements. The Company s primary credit exposure on these resale transactions is with its counterparty. The Company would have exposure to the U.S. Government and agency securities only in the event of the counterparty s default on the resale agreements. U.S. Government and agency securities held as collateral for resale agreements totaled $8.5 billion at December 31, 2009.

Market Risk

Market risk is the potential for changes in revenue or the value of financial instruments held by the Company as a result of fluctuations in interest rates, equity prices or market conditions. For discussion of the Company s market risk, see Item 7A Quantitative and Qualitative Disclosures About Market Risk.

Fiduciary Risk

Fiduciary risk is the potential for financial or reputational loss through breach of fiduciary duties to a client. Fiduciary activities include, but are not limited to, individual and institutional trust, investment management, custody, and cash and securities processing. The Company attempts to manage this risk by establishing procedures to ensure that obligations to clients are discharged faithfully and in compliance with applicable legal and regulatory requirements. Business units have the primary responsibility for adherence to the procedures applicable to their business. Guidance and control are provided through the creation, approval, and ongoing review of applicable policies by business units and various risk committees.

Legal and Regulatory Risk

The Company faces significant legal and compliance risk in its business, and the volume of litigation and regulatory proceedings against financial services firms and the amount of damages claimed have been increasing. Among other things, these risks relate to the suitability of

client investments, conflicts of interest, disclosure obligations and performance expectations for Company products and services, supervision of employees, and the adequacy of the Company s controls. Claims against the Company may increase due to a variety of factors, such as if clients suffer losses during a period of deteriorating equity market conditions, as the Company increases the level of advice it provides to clients, and as the Company enhances the services it provides to IAs. In addition, the Company and its affiliates are subject to extensive regulation by federal, state and foreign regulatory authorities, and SROs, and such regulation is becoming increasingly extensive and complex.

The Company attempts to manage legal and compliance risk through policies and procedures reasonably designed to avoid litigation claims and prevent or detect violations of applicable legal and regulatory requirements. These procedures address issues such as business conduct and ethics, sales and trading practices, marketing and communications, extension of credit, client funds and securities, books and records, anti-money laundering, client privacy, employment policies, and contracts management. Despite the Company s efforts to maintain an effective compliance program and internal controls, legal breaches and rule violations could result in reputational harm, significant losses and disciplinary sanctions, including limitations on the Company s business activities.

Table of Contents

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses fair value measurements to record certain financial assets and liabilities at fair value, and to determine fair value disclosures. At December 31, 2009, $30.1 billion, or 40% of total assets, were recorded at fair value. At December 31, 2008, $21.9 billion, or 42% of total assets, were recorded at fair value. All of these assets were measured at fair value using quoted prices or market-based information and accordingly were classified as Level 1 or Level 2 measurements in accordance with the fair value hierarchy described in fair value measurement accounting guidance. Liabilities recorded at fair value were not material at December 31, 2009 or 2008. See note Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 15. Fair Value of Assets and Liabilities for more information on the Company s assets and liabilities accounted for at fair value.

The Company uses prices obtained from an independent third-party pricing service to measure the fair value of certain investment securities. The Company validates prices received from the pricing service using various methods including, comparison to prices received from additional pricing services, comparison to available quoted market prices, internal valuation models, and review of other relevant market data. The Company does not adjust the prices received from the independent third-party pricing service unless such prices are inconsistent with the definition of fair value and result in a material difference in the recorded amounts. At December 31, 2009 and 2008, the Company did not adjust prices received from the independent third-party pricing service. For certificates of deposits and treasury securities included in investments segregated and on deposit for regulatory purposes, the Company uses discounted cash-flow models to measure the fair value that utilize market-based inputs including observable market interest rates that correspond to the remaining maturities or next interest reset dates.

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the U.S. While the majority of the Company s revenues, expenses, assets and liabilities are not based on estimates, there are certain accounting principles that require management to make estimates regarding matters that are uncertain and susceptible to change where such change may result in a material adverse impact on the Company s financial position and reported financial results. These critical accounting estimates are described below. Management regularly reviews the estimates and assumptions used in the preparation of the Company s financial statements for reasonableness and adequacy.

Other-than-Temporary Impairment of Securities Available for Sale and Securities Held to Maturity: Management evaluates whether securities available for sale and securities held to maturity are other-than-temporarily impaired (OTTI) on a quarterly basis. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the security or if the Company will be required to sell such security prior to any anticipated recovery. If management determines that a security is OTTI under these circumstances, the impairment recognized in earnings is measured as the entire difference between the amortized cost and then-current fair value.

A security is also OTTI if management does not expect to recover the amortized cost of the security. In this circumstance, management utilizes cash flow models to estimate the expected future cash flow from the securities and to estimate the credit loss. The impairment recognized in

earnings is measured by the difference between the present value of expected cash flows and the amortized cost of the security. Expected cash flows are discounted using the security s effective interest rate.

The evaluation of whether the Company expects to recover the amortized cost of a security is inherently judgmental. The evaluation includes the assessment of several bond performance indicators including: the portion of the underlying loans that are delinquent (30 days, 60 days, 90+ days), in bankruptcy, in foreclosure or converted to real estate owned; the actual amount of loss incurred on the underlying loans in which the property has been foreclosed and sold; the amount of credit support provided by the structure of the security available to absorb credit losses on the underlying loans; the current credit ratings issued by either Standard & Poor s, Fitch Ratings, or Moody s; the current price and magnitude of the unrealized loss; and whether the Company has received all scheduled principal and interest payments. Management uses cash flow models to further assess the likelihood of other-than-temporary impairment for the Company s non-agency residential mortgage-backed

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

securities. To develop the cash flow models, the Company uses forecasted loss severity, prepayment speeds (i.e. the rate at which the principal on underlying loans are paid down), and default rates over the securities remaining maturities. Forecasted home price fluctuations are an important variable in forecasting the expected loss severity and default rates. Based on these cash flow projections, management determines if the Company expects to recover all of the amortized cost of the securities and therefore if the securities are OTTI.

Valuation of Goodwill: The Company tests goodwill for impairment at least annually, or whenever indications of impairment exist. An impairment exists when the carrying amount of goodwill exceeds its implied fair value, resulting in an impairment charge for this excess.

The Company has elected April 1st as its annual goodwill impairment testing date. In testing for a potential impairment of goodwill on April 1, 2009, management estimated the fair value of each of the Company s reporting units (generally defined as the Company s businesses for which financial information is available and reviewed regularly by management) and compared this value to the carrying value of the reporting unit. The estimated fair value of each reporting unit substantially exceeded its carrying value, and therefore management concluded that no amount of goodwill was impaired. The estimated fair value of the reporting units was established using a discounted cash flow model that includes significant assumptions about the future operating results and cash flows of each reporting unit. Adverse changes in the Company s planned business operations such as unanticipated competition, a loss of key personnel, the sale of a reporting unit or a significant portion of a reporting unit, or other unforeseen developments could result in an impairment of the Company s recorded goodwill.

Allowance for Credit Losses: The adequacy of the allowance for credit losses is reviewed regularly by management, taking into consideration current economic conditions, the existing loan portfolio composition, past loss experience, and risks inherent in the portfolio, as more fully described below.

The Company performs a quarterly analysis to estimate the allowance for credit losses. This process utilizes loan-level statistical models that estimate prepayments, defaults, and expected life of loan losses for our loan portfolios based on predicted behavior of individual loans within the portfolios. The models consider effects of borrower behavior and a variety of factors including, but not limited to, interest rate fluctuations, housing price movements, current economic conditions, estimated defaults and foreclosures, delinquencies, the loan portfolio composition (including concentrations of credit risk), past loss experience, estimates of loss severity, and credit scores.

The more significant variables within the models include a measure of delinquency roll rates, the amount of loss in the event of default, housing prices, and interest rates. Delinquency roll rates (i.e., the rates at which loans transition through delinquency stages and ultimately result in a loss) are estimated from the Company s historical loss experience adjusted for current trends and market information. Loss in the event of default is based on the Company s historical loss experience and market trends. Housing price trends are derived from historical home price indices and statistical forecasts of future home values. Factors affecting the home price index include: housing inventory, unemployment, interest rates, and inflation expectations. Interest rate projections are based on the current term structure of interest rates and historical volatilities to project various possible future interest rate paths. This quarterly analysis results in a loss factor that is applied to the outstanding balances to determine the allowance for credit loss for each loan category.

Legal Reserve: Reserves for legal and regulatory claims and proceedings reflect an estimate of probable losses for each matter, after considering, among other factors, the progress of the case, prior experience and the experience of others in similar cases, available defenses, insurance coverage and indemnification, and the opinions and views of legal counsel. In many cases, including most class action lawsuits, it is not possible to determine whether a loss will be incurred, or to estimate the range of that loss, until the matter is close to resolution, in which case no accrual is made until that time. Reserves are adjusted as more information becomes available or when an event occurs requiring a change. Significant judgment is required in making these estimates, and the actual cost of resolving a matter may ultimately differ materially from the amount reserved.

The Company s management has discussed the development and selection of these critical accounting estimates with the Audit Committee. Additionally, management has reviewed with the Audit Committee the Company s significant estimates discussed in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

THE CHARLES SCHWAB CORPORATION

Management s Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Ratios, or as Noted)

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are identified by words such as believe, anticipate, expect, intend, plan, will, may, estimate, aim, target, could, and other similar expressions. In addition, a refer to expectations, projections, or other characterizations of future events or circumstances are forward-looking statements.

These forward-looking statements, which reflect management s beliefs, objectives, and expectations as of the date hereof, are necessarily estimates based on the best judgment of the Company s senior management. These statements relate to, among other things:

the Company s ability to pursue its business strategy (see Item 1 Business Business Strategy and Competitive Environment);

the impact of legal proceedings and regulatory matters (see Item 3 Legal Proceedings and Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 13. Commitments and Contingent Liabilities Legal Contingencies);

the impact of current market conditions on the Company s results of operations (see Current Market Environment and Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 5. Securities Available for Sale and Securities Held to Maturity);

sources of liquidity, capital, and level of dividends (see Liquidity and Capital Resources and Contractual Obligations);

target capital ratios (see Liquidity and Capital Resources);

capital expenditures (see Liquidity and Capital Resources Capital Resources);

the impact of changes in management s estimates on the Company s results of operations (see Critical Accounting Estimates);

the impact of changes in the likelihood of indemnification and guarantee payment obligations on the Company s results of operations (see Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 13. Commitments and Contingent Liabilities);

the impact on the Company s results of operations of recording stock option expense (see Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements 17. Employee Incentive, Deferred Compensation, and Retirement

Plans); and

Achievement of the expressed beliefs, objectives and expectations described in these statements is subject to certain risks and uncertainties that could cause actual results to differ materially from the expressed beliefs, objectives, and expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K or, in the case of documents incorporated by reference, as of the date of those documents.

Important factors that may cause actual results to differ include, but are not limited to:

changes in general economic and financial market conditions;

changes in revenues and profit margin due to changes in interest rates;

unanticipated adverse developments in litigation or regulatory matters;

fluctuations in client asset values due to changes in equity valuations;

the performance of securities available for sale;

the level of interest rates, including yields available on money market mutual fund eligible investments;

the amount of loans to the Company s brokerage and banking clients;

the level of brokerage client cash balances and deposits from banking clients;

the availability and terms of external financing;

the level of the Company s stock repurchase activity;

the timing and impact of changes in the Company s level of investments in leasehold improvements and technology;

potential breaches of contractual terms for which the Company has indemnification obligations; and

Certain of these factors, as well as general risk factors affecting the Company, are discussed in greater detail in this Annual Report on Form 10-K, including Item 1A Risk Factors.

THE CHARLES SCHWAB CORPORATION

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential for changes in revenue or the value of financial instruments held by the Company as a result of fluctuations in interest rates, equity prices or market conditions.

For the Company s market risk related to interest rates, a sensitivity analysis, referred to as a net interest revenue simulation model, is shown below. The Company is exposed to interest rate risk primarily from changes in the interest rates on its interest-earning assets relative to changes in the costs of its funding sources that finance these assets.

Net interest revenue is affected by various factors, such as the distribution and composition of interest-earning assets and interest bearing liabilities, the spread between yields earned on interest-earning assets and rates paid on interest-bearing liabilities, which may re-price at different times or by different amounts, and the spread between short and long-term interest rates. Interest-earning assets include residential real estate loans and residential mortgage-backed securities. These assets are sensitive to changes in interest rates and to changes to prepayment levels, which tend to increase in a declining rate environment.

To mitigate the risk of loss, the Company has established policies and procedures which include setting guidelines on the amount of net interest revenue at risk, and monitoring the net interest margin and average maturity of its interest-earning assets and funding sources. To remain within these guidelines, the Company manages the maturity, repricing, and cash flow characteristics of the investment portfolios. Because the Company establishes the rates paid on certain brokerage client cash balances and deposits from banking clients, the rates charged on margin loans, and controls the composition of its investment securities, it has some ability to manage its net interest spread, depending on competitive factors and market conditions.

The Company is also subject to market risk as a result of fluctuations in equity prices. The Company s direct holdings of equity securities and its associated exposure to equity prices are not material. The Company is indirectly exposed to equity market fluctuations in connection with securities collateralizing margin loans to brokerage customers, and customer securities loaned out as part of the Company s securities lending activities. Equity market valuations may also affect the level of brokerage client trading activity, margin borrowing, and overall client engagement with the Company. Additionally, the Company earns mutual fund service fees and asset management fees based upon daily balances of certain client assets. Fluctuations in these client asset balances caused by changes in equity valuations directly impact the amount of fee revenue earned by the Company.

Financial instruments held by the Company are also subject to liquidity risk that is, the risk that valuations will be negatively affected by changes in demand and the underlying market for a financial instrument. Recent conditions in the credit markets have significantly reduced market liquidity in a wide range of financial instruments, including the types of instruments held by the Company, and fair value can differ significantly from the value implied by the credit quality and actual performance of the instrument s underlying cash flows.

Financial instruments held by the Company are also subject to valuation risk as a result of changes in valuations of the underlying collateral, such as housing prices in the case of residential real estate loans and mortgage-backed securities.

For discussion of the impact of current market conditions on asset management and administration fees, net interest revenue, and securities available for sale, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Current Market Environment .

The Company s market risk related to financial instruments held for trading, interest rate swaps related to a portion of its fixed interest rate Medium-Term Notes, and forward sale and interest rate lock commitments related to its loans held for sale portfolio is not material.

Net Interest Revenue Simulation

The Company uses net interest revenue simulation modeling techniques to evaluate and manage the effect of changing interest rates. The simulation model (the model) includes all interest-sensitive assets and liabilities, as well as interest rate swap agreements utilized by the Company to hedge its interest rate risk. Key variables in the model include the repricing of

THE CHARLES SCHWAB CORPORATION

financial instruments, prepayment and reinvestment assumptions, and product pricing assumptions. The Company uses constant balances and market rates in the model assumptions in order to minimize the number of variables and to better isolate risks. The simulations involve assumptions that are inherently uncertain and, as a result, cannot precisely estimate net interest revenue or precisely predict the impact of changes in interest rates on net interest revenue. Actual results may differ from simulated results due to balance growth or decline and the timing, magnitude, and frequency of interest rate changes, as well as changes in market conditions and management strategies, including changes in asset and liability mix.

As represented by the simulations presented below, the Company is positioned so that the consolidated balance sheet produces an increase in net interest revenue when interest rates rise and, conversely, a decrease in net interest revenue when interest rates fall (i.e., interest-earning assets generally reprice more quickly than interest-bearing liabilities).

The simulations in the following table assume that the asset and liability structure of the consolidated balance sheet would not be changed as a result of the simulated changes in interest rates. As the Company actively manages its consolidated balance sheet and interest rate exposure, in all likelihood the Company would take steps to manage any additional interest rate exposure that could result from changes in the interest rate environment. The following table shows the results of a gradual 100 basis point increase or decrease in market interest rates relative to the Company s current market rates forecast on simulated net interest revenue over the next 12 months at December 31, 2009 and 2008. While the Company typically uses a gradual 200 basis point change, it revised the methodology at March 31, 2008 due to the current low levels of interest rates. The Company will use a gradual 100 basis point change until such time as the level of interest rates justifies a return to the previous methodology.

December 31,	2009	2008
Increase of 100 basis points	16.8%	6.4%
Decrease of 100 basis points	(2.9%)	(6.8%)

The sensitivities shown in the simulation reflect the fact that short-term interest rates in 2009 continued to decline even though the Fed Funds target rate remained at a range of zero to 0.25%. During 2009, the Company s yield on interest-earning assets fell faster than its already low cost of funding sources. Since current short-term interest rates are so low, further declines have a lesser impact on net interest revenue, while increases in short-term interest rates result in a greater impact as yields on interest-earning assets rise faster than the cost of funding sources.

Table of Contents

THE CHARLES SCHWAB CORPORATION

Item 8. Financial Statements and Supplementary Data

TABLE OF CONTENTS

Consolidated Statements of Income		42
Consolidated Balance Sheets		43
Consolidated Statements of Cash Flows		44
Consolidated Statements of Stockholders Equity		45
Notes to Consolidated Financial Statements		46
Note 1.	Introduction and Basis of Presentation	46
Note 2.	Summary of Significant Accounting Policies	46
Note 3.	Receivables from Brokerage Clients	51
Note 4.	Other Securities Owned	51
Note 5.	Securities Available for Sale and Securities Held to Maturity	52
Note 6.	Loans to Banking Clients and Related Allowance for Credit Losses	55
Note 7.	Equipment, Office Facilities, and Property	56
Note 8.	Other Assets	56
Note 9.	Deposits from Banking Clients	57
Note 10.	Payables to Brokers, Dealers, and Clearing Organizations	57
Note 11.	Payables to Brokerage Clients	57
Note 12.	Borrowings	57
Note 13.	Commitments and Contingent Liabilities	59
Note 14.	Financial Instruments Subject to Off-Balance Sheet Risk, Credit Risk, or Market Risk	62
Note 15.	Fair Values of Assets and Liabilities	64
Note 16.	Accumulated Other Comprehensive Loss	68
Note 17.	Employee Incentive, Deferred Compensation, and Retirement Plans	69
Note 18.	Taxes on Income	72
Note 19.	Earnings Per Share	74
Note 20.	Regulatory Requirements	74
Note 21.	Segment Information	75
Note 22.	Discontinued Operations	78
Note 23.	Subsequent Event	79
Note 24.	The Charles Schwab Corporation Parent Company Only Financial Statements	79
Note 25.	Quarterly Financial Information (Unaudited)	82
Report of Independent Registered Public Accounting Firm		83
Management s Report on Internal Control Over Financial Reporting		84

Table of Contents

THE CHARLES SCHWAB CORPORATION

Consolidated Statements of Income

(In Millions, Except Per Share Amounts)

Year Ended December 31,	2009	2008