

SCHWAB CHARLES CORP  
Form 424B5  
January 19, 2010  
Table of Contents

Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-156152

**The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

PROSPECTUS SUPPLEMENT

Subject to Completion

Dated January 19, 2010

(To Prospectus dated December 16, 2008)

**26,316,000 Shares**

## The Charles Schwab Corporation

### Common Stock

We are offering 26,316,000 shares of our common stock through this prospectus supplement and the accompanying prospectus.

Our common stock is listed on the NASDAQ Stock Market under the symbol SCHW. The last reported sale price of our common stock on January 15, 2010 was \$19.00 per share.

**Investing in our common stock involves risks. See Risk factors on page S-11 of this prospectus supplement.**

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$
The underwriters may also purchase up to an additional 3,947,400 shares of common stock from us at the public offering price, less the underwriting discount and commissions payable by us, to cover over-allotments, if any, within 30 days following the date of this prospectus supplement. If the underwriters exercise the option in full, the total underwriting discounts and commissions will be \$ , and the total proceeds, before expenses, to us will be \$ .		

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares against payment on or about January , 2010.

*Sole Book-Running Manager*

## **UBS Investment Bank**

*Co-Managers*

**Citi**

**Credit Suisse**

**BNY Mellon Capital Markets, LLC**

**J.P. Morgan**

**Wells Fargo Securities**

**Calyon Securities (USA) Inc.**

**PNC Capital Markets LLC**

The date of this prospectus supplement is January , 2010.

## **Table of Contents**

### **TABLE OF CONTENTS**

#### **Prospectus supplement**

	<b>Page</b>
<a href="#"><u>About this prospectus supplement</u></a>	S-iii
<a href="#"><u>Where you can find more information</u></a>	S-iv
<a href="#"><u>Forward-looking statements</u></a>	S-v
<a href="#"><u>Summary</u></a>	S-1
<a href="#"><u>Risk factors</u></a>	S-11
<a href="#"><u>Use of proceeds</u></a>	S-14
<a href="#"><u>Price range of common stock</u></a>	S-14
<a href="#"><u>Dividends</u></a>	S-15
<a href="#"><u>Capitalization</u></a>	S-16
<a href="#"><u>Material United States federal income and estate tax consequences to non-U.S. holders</u></a>	S-17
<a href="#"><u>Certain ERISA considerations</u></a>	S-20
<a href="#"><u>Underwriting</u></a>	S-21
<a href="#"><u>Notice to investors</u></a>	S-23
<a href="#"><u>Validity of securities</u></a>	S-27
<a href="#"><u>Experts</u></a>	S-27

#### **Prospectus**

	<b>Page</b>
<a href="#"><u>About this Prospectus</u></a>	1
<a href="#"><u>Forward-looking Statements</u></a>	1
<a href="#"><u>Where You Can Find More Information</u></a>	2
<a href="#"><u>The Charles Schwab Corporation</u></a>	3
<a href="#"><u>The Trusts</u></a>	3
<a href="#"><u>Consolidated Ratios of Earnings to Fixed Charges</u></a>	4
<a href="#"><u>Use of Proceeds</u></a>	5
<a href="#"><u>Description of Debt Securities of The Charles Schwab Corporation</u></a>	5
<a href="#"><u>Description of the Trust Preferred Securities</u></a>	14
<a href="#"><u>Description of the Junior Subordinated Debentures of The Charles Schwab Corporation</u></a>	25
<a href="#"><u>Description of the Trust Securities Guarantees of The Charles Schwab Corporation</u></a>	36
<a href="#"><u>Relationship Among the Trust Preferred Securities, the Corresponding Junior Subordinated Debentures and the Trust Securities Guarantees</u></a>	38
<a href="#"><u>Description of Preferred Stock</u></a>	40
<a href="#"><u>Description of Depositary Shares</u></a>	43
<a href="#"><u>Description of Common Stock</u></a>	45
<a href="#"><u>Description of Purchase Contracts</u></a>	47
<a href="#"><u>Description of Warrants</u></a>	47
<a href="#"><u>Description of Units</u></a>	50
<a href="#"><u>Global Securities</u></a>	51
<a href="#"><u>Plan of Distribution</u></a>	54
<a href="#"><u>Validity of Securities</u></a>	56
<a href="#"><u>Experts</u></a>	56

S-i

**Table of Contents**

In making your investment decision, you should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus, any free writing prospectus we authorized to be delivered to you, or any other offering material filed or provided by us. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

You should not assume that the information contained in this prospectus supplement, the accompanying prospectus or any other offering material is accurate as of any date other than the date on the front of such document. Any information incorporated by reference in this prospectus supplement, the accompanying prospectus or any other offering material is accurate only as of the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since that date.

We and the underwriters are offering to sell the common stock, and are seeking offers to buy the common stock, only in jurisdictions where offers and sales are permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about and observe any restrictions relating to the offering of the common stock and the distribution of this prospectus supplement and the accompanying prospectus outside the United States. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

S-ii

**Table of Contents**

## About this prospectus supplement

This prospectus supplement and the accompanying prospectus are part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process. In this prospectus supplement, we provide you with specific information about the shares of our common stock that we are selling in this offering and about the offering itself. Both this prospectus supplement and the accompanying prospectus include or incorporate by reference important information about us, our common stock and other information you should know before investing in our common stock. This prospectus supplement also adds, updates and changes information contained or incorporated by reference in the accompanying prospectus. To the extent that any statement that we make in this prospectus supplement is inconsistent with the statements made in the accompanying prospectus, the statements made in the accompanying prospectus are deemed modified or superseded by the statements made in this prospectus supplement. You should read both this prospectus supplement and the accompanying prospectus as well as additional information described in [Where you can find more information](#) before investing in our common stock.

References in this prospectus supplement to [we](#), [us](#), [our](#) and [CSC](#) mean The Charles Schwab Corporation. References in this prospectus supplement to the [Company](#) means CSC and its majority-owned subsidiaries.

The representations, warranties and covenants made by CSC in any agreement that is filed as an exhibit to any document that is incorporated by reference in this prospectus supplement and the accompanying prospectus were made solely for the benefit of the parties to such agreement, including, in some cases, for the purpose of allocating risk among the parties to such agreements, and should not be deemed to be a representation, warranty or covenant to you. Moreover, such representations, warranties or covenants were accurate only as of the date when made. Accordingly, such representations, warranties and covenants should not be relied on as accurately representing the current state of CSC's affairs.

S-iii

**Table of Contents**

## Where you can find more information

CSC files annual, quarterly and current reports, proxy statements and other information with the SEC. CSC's SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. Copies of certain information filed by CSC with the SEC are also available on CSC's corporate website at <http://www.aboutschwab.com>. The website addresses of the SEC and CSC are included as inactive textual references only, and the information contained on those websites is not a part of this prospectus supplement or the accompanying prospectus. You may also read and copy any document that CSC files at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The SEC allows CSC to incorporate by reference information CSC has filed with the SEC, which means that CSC can disclose important information to you by referring you to other documents. The information incorporated by reference is considered to be a part of this prospectus supplement.

This prospectus supplement incorporates by reference the documents listed below:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (including such information from the Proxy Statement filed March 30, 2009 that is incorporated by reference in Part III of such Annual Report), as updated by CSC's Current Report on Form 8-K filed on June 1, 2009 relating to CSC's realigned segment reporting structure and the retrospective adjustment to previously reported earnings per share data as a result of the adoption of a new accounting standard;
  - Quarterly Report on Form 10-Q for the quarter ended March 31, 2009;
  - Quarterly Report on Form 10-Q for the quarter ended June 30, 2009;
  - Quarterly Report on Form 10-Q for the quarter ended September 30, 2009;
  - Current Reports on Form 8-K filed on June 1, 2009 (relating to CSC's realigned segment reporting structure and the retrospective adjustment to previously reported earnings per share data as a result of the adoption of a new accounting standard), June 5, 2009, July 31, 2009, September 30, 2009, October 14, 2009 and October 28, 2009; and
  - The description of our common stock contained in our Registration Statement on Form 8-A, as filed on September 11, 1987, as amended.
- You may request a copy of these filings at no cost, by writing, telephoning or sending an email to the following address:

**The Charles Schwab Corporation**

**211 Main Street**

**San Francisco, California 94105**

**Attention: Corporate Secretary**

**Telephone: (415) 667-1959**

**Email: [investor.relations@schwab.com](mailto:investor.relations@schwab.com)**

S-iv

**Table of Contents**

## Forward-looking statements

This prospectus supplement and the accompanying prospectus, including the documents incorporated by reference, contain not only historical information but also 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, aim, target, and other similar expressions. These statements, which may be expressed in a variety of ways, including the use of future or present tense language, refer to future events. In addition, any statements that 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, or in the case of any documents incorporated by reference, as of the date of those documents, are necessarily estimates based on the best judgment of CSC's senior management. These statements relate to, among other things:

- the use of proceeds from this offering;
- the impact of fluctuations in the S&P 500 index, trading activity and the Federal Funds rate on the Company's results of operations;
- the Company's ability to pursue its business strategy;
- the impact of legal proceedings and regulatory matters;
- the impact of current market conditions on the Company's results of operations;
- target capital ratios;
- sources of liquidity, capital and level of dividends;
- capital expenditures;
- the impact of changes in management's estimates on the Company's results of operations;
- the impact of expensing stock options on the Company's results of operations;

## Edgar Filing: SCHWAB CHARLES CORP - Form 424B5

- the impact of changes in estimated costs related to past restructuring initiatives on the Company's results of operations;
- the impact of changes in the likelihood of indemnification and guarantee payment obligations on the Company's results of operations; and
- the other risks and uncertainties described in this prospectus supplement.

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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus supplement 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:

- general economic and financial market conditions;
- the level of interest rates, including yields available on money market mutual fund eligible instruments;
- changes in revenues and profit margin;

S-v

**Table of Contents**

- fluctuations in client asset values due to changes in equity valuations;
  - the amount of loans to the Company's brokerage and banking clients;
  - the Company's ability to attract and retain clients and to grow client assets and relationships;
  - the Company's ability to sustain expense savings without disrupting operations;
  - competitive pressures on rates and fees;
  - the Company's ability to obtain necessary approvals from regulators and/or clients;
  - unanticipated adverse developments in litigation or regulatory matters;
  - the performance of securities available for sale;
  - 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 technology and buildings;
  - CSC's ability to maintain favorable ratings from ratings agencies;
  - the Company's ability to sublease certain properties; and
  - potential breaches of contractual terms for which the Company has indemnification obligations.
- You should refer to the "Risk factors" section of this prospectus supplement and to CSC's periodic and current reports filed with the SEC for specific risks which would cause actual results to be significantly different from those expressed or implied by these forward-looking statements.

## Edgar Filing: SCHWAB CHARLES CORP - Form 424B5

In particular, certain of these factors, as well as general risk factors affecting CSC and its subsidiaries, are discussed in greater detail in Item 1A Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which is incorporated by reference into this prospectus supplement and accompanying prospectus.

S-vi

## **Table of Contents**

# Summary

*The following summary contains basic information about this offering. It may not contain all of the information that is important to you and it is qualified in its entirety by the more detailed information included or incorporated by reference in this prospectus supplement and the accompanying prospectus. You should carefully consider the information contained in and incorporated by reference in this prospectus supplement and the accompanying prospectus, including the information set forth under the heading "Risk factors" in this prospectus supplement and the accompanying prospectus. In addition, certain statements include forward-looking information that involves risks and uncertainties. See "Forward-looking statements."*

## **The Charles Schwab Corporation**

CSC, headquartered in San Francisco, California, was incorporated in 1986 and engages, through its subsidiaries (primarily located in San Francisco except as indicated), in securities brokerage, banking and related financial services. At September 30, 2009, CSC had \$1.36 trillion in client assets, 7.6 million active brokerage accounts, 1.5 million corporate retirement plan participants and 667,000 banking accounts.

Significant subsidiaries of CSC include:

- Charles Schwab & Co., Inc. ( "Schwab" ), which was incorporated in 1971, is a securities broker-dealer with more than 300 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. is the investment advisor for Schwab's proprietary mutual funds, which are referred to as the Schwab Funds®.

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

- Brokerage various 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 fee-based advisory relationships, fixed income securities and equity and debt offerings;
- Banking first mortgages, home equity lines of credit, pledged-asset loans, certificates of deposit, demand deposit accounts, high-yield investor 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.

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



## **Table of Contents**

### **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.

### **Institutional Services**

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

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.

CSC's common stock is listed and traded on The NASDAQ Stock Market under the symbol SCHW.

CSC's principal executive office is located at 211 Main Street, San Francisco, California 94105 and CSC's telephone number is (415) 636-7000. CSC's corporate Internet website is [www.aboutschwab.com](http://www.aboutschwab.com). CSC's website address is included as an inactive textual reference only, and the information contained on CSC's website is not a part of this prospectus supplement or the accompanying prospectus.

**Table of Contents****Recent Developments**

In accordance with our normal schedule, we are currently performing, and have not yet completed, the closing procedures in connection with the preparation and filing of our audited financial statements which will be included in our Annual Report on Form 10-K for the year ended December 31, 2009. Accordingly, while we currently estimate our financial results for the quarter and year ended December 31, 2009 as set forth in the tables below and our capital ratios as described in the narrative below, this information is, by necessity, preliminary in nature and based only upon preliminary information available to us as of the date of this prospectus supplement. We cannot assure you that this information will not change.

**Consolidated Statements of Income**

(In millions, except per share amounts)

(Unaudited)

	<b>Three Months Ended December 31,</b>		<b>Twelve Months Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Net Revenues</b>				
Asset management and administration fees	\$ 436	\$ 528	\$ 1,875	\$ 2,355
Interest revenue	365	423	1,428	1,908
Interest expense	(60)	(51)	(221)	(243)
Net interest revenue	305	372	1,207	1,665
Trading revenue	224	352	996	1,080
Other	43	32	175	94
Total other-than-temporary impairment losses	(39)		(278)	(44)
Noncredit portion of loss recognized in other comprehensive income	17		218	
Net impairment losses on securities	(22)		(60)	(44)
Total net revenues	986	1,284	4,193	5,150
<b>Expenses Excluding Interest</b>				
Compensation and benefits	371	402	1,544	1,667
Professional services	81	80	275	334
Occupancy and equipment	73	78	318	299
Advertising and market development	50	62	191	243
Communications	51	56	206	211
Depreciation and amortization	38	39	159	152
Other	56	60	224	216
Total expenses excluding interest	720	777	2,917	3,122
Income from continuing operations before taxes on income	266	507	1,276	2,028
Taxes on income	(102)	(199)	(489)	(798)
Income from continuing operations	164	308	787	1,230
Loss from discontinued operations, net of tax				(18)
<b>Net Income</b>	<b>\$ 164</b>	<b>\$ 308</b>	<b>\$ 787</b>	<b>\$ 1,212</b>
<b>Weighted-Average Common Shares Outstanding Diluted</b>	<b>1,163</b>	<b>1,158</b>	<b>1,160</b>	<b>1,157</b>

<b>Earnings Per Share Basic</b>				
Income from continuing operations	\$ .14	\$ .27	\$ .68	\$ 1.07
Loss from discontinued operations, net of tax	\$	\$	\$	\$ (.01)
Net income	\$ .14	\$ .27	\$ .68	\$ 1.06
<b>Earnings Per Share Diluted</b>				
Income from continuing operations	\$ .14	\$ .27	\$ .68	\$ 1.06
Loss from discontinued operations, net of tax	\$	\$	\$	\$ (.01)
Net income	\$ .14	\$ .27	\$ .68	\$ 1.05
<b>Dividends Declared Per Common Share</b>				
	\$ .06	\$ .06	\$ .24	\$ .22

S-3

**Table of Contents****Financial and Operating Highlights**

(Unaudited)

(In millions, except per share amounts and as noted)	Q4-09 % change vs.		2009				2008
	vs. Q4-08	Q3-09	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
<b>Net Revenues</b>							
Asset management and administration fees	(17%)	(3%)	\$ 436	\$ 451	\$ 486	\$ 502	\$ 528
Net interest revenue	(18%)	4%	305	294	302	306	372
Trading revenue	(36%)	(7%)	224	241	272	259	352
Other(1)	34%	19%	43	36	38	58	32
Net impairment losses on securities	N/M	100%	(22)	(11)	(13)	(14)	
Total net revenues	(23%)	(2%)	986	1,011	1,085	1,111	1,284
<b>Expenses Excluding Interest</b>							
Compensation and benefits	(8%)		371	371	377	425	402
Professional services	1%	16%	81	70	64	60	80
Occupancy and equipment	(6%)	9%	73	67	97	81	78
Advertising and market development	(19%)	47%	50	34	49	58	62
Communications	(9%)	6%	51	48	54	53	56
Depreciation and amortization	(3%)		38	38	41	42	39
Other(2)	(7%)	(11%)	56	63	68	37	60
Total expenses excluding interest	(7%)	4%	720	691	750	756	777
Income before taxes on income	(48%)	(17%)	266	320	335	355	507
Taxes on income	(49%)	(15%)	(102)	(120)	(130)	(137)	(199)
<b>Net Income</b>	(47%)	(18%)	\$ 164	\$ 200	\$ 205	\$ 218	\$ 308
Basic earnings per share	(48%)	(18%)	\$ .14	\$ .17	\$ .18	\$ .19	\$ .27
Diluted earnings per share	(48%)	(18%)	\$ .14	\$ .17	\$ .18	\$ .19	\$ .27
Dividends declared per common share			\$ .06	\$ .06	\$ .06	\$ .06	\$ .06
Weighted-average common shares outstanding diluted			1,163	1,163	1,160	1,156	1,158
<b>Performance Measures</b>							
Pre-tax profit margin			27.0%	31.7%	30.9%	32.0%	39.5%
Return on stockholders' equity (annualized)			13%	17%	18%	21%	30%

**Table of Contents**

(In millions, except per share amounts and as noted)	Q4-09 % change vs.		2009				2008
	vs. Q4-08	Q3-09	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
<b>Financial Condition</b> (at quarter end, in billions)							
Cash and investments segregated	25%	6%	\$ 18.4	\$ 17.4	\$ 15.5	\$ 15.9	\$ 14.7
Receivables from brokerage clients	21%	9%	\$ 8.6	\$ 7.9	\$ 7.7	\$ 6.3	\$ 7.1
Loans to banking clients	22%	6%	\$ 7.3	\$ 6.9	\$ 6.5	\$ 6.3	\$ 6.0
Total assets	46%	11%	\$ 75.4	\$ 68.0	\$ 62.3	\$ 54.9	\$ 51.7
Deposits from banking clients	63%	9%	\$ 38.8	\$ 35.5	\$ 31.7	\$ 26.6	\$ 23.8
Payables to brokerage clients	29%	12%	\$ 26.2	\$ 23.4	\$ 21.6	\$ 20.6	\$ 20.3
Long-term debt(3)	67%		\$ 1.5	\$ 1.5	\$ 1.6	\$ .8	\$ .9
Stockholders' equity	24%	4%	\$ 5.1	\$ 4.9	\$ 4.6	\$ 4.3	\$ 4.1
<b>Other</b>							
Full-time equivalent employees (at quarter end, in thousands)	(7%)	2%	12.4	12.2	12.1	12.4	13.4
Annualized net revenues per average full-time equivalent employee (in thousands)	(15%)	(3%)	\$ 321	\$ 331	\$ 356	\$ 350	\$ 378
Capital expenditures—cash purchases of equipment, office facilities, and property, net (in millions)	(52%)	(9%)	\$ 32	\$ 35	\$ 41	\$ 31	\$ 67
<b>Asset Management and Administration Fees</b>							
Asset management and administration fees before money market mutual fund fee waivers	3%	3%	\$ 546	\$ 529	\$ 516	\$ 508	\$ 528
Money market mutual fund fee waivers	N/M	41%	(110)	(78)	(30)	(6)	
Asset management and administration fees	(17%)	(3%)	\$ 436	\$ 451	\$ 486	\$ 502	\$ 528
<b>Clients' Daily Average Trades</b> (in thousands)							
Revenue trades(4)	(26%)	(3%)	266.3	273.7	301.2	302.9	358.3
Investor Services(5)	(23%)	(12%)	22.0	25.0	26.3	27.7	28.7
Advisor Services(5)	(51%)	(2%)	18.1	18.4	20.8	27.4	36.6
Corporate and Retirement Services(5)	(13%)		1.4	1.4	1.4	1.4	1.6
Total	(28%)	(3%)	307.8	318.5	349.7	359.4	425.2
<b>Average Revenue Per Revenue Trade</b> (4)	(7%)	(2%)	\$ 13.59	\$ 13.93	\$ 13.84	\$ 14.06	\$ 14.63

- (1) The first quarter of 2009 includes a \$26 million gain relating to the repurchase of junior subordinated notes.
- (2) The first quarter of 2009 includes charges of \$19 million for individual client complaints and arbitration claims relating to Schwab YieldPlus Fund® investments (collectively YieldPlus Expenses), offset by \$30 million of insurance recoveries, resulting in a net credit of \$11 million in other expense for the quarter. YieldPlus Expenses and insurance recoveries in the fourth quarter, third quarter, and second quarter of 2009 and fourth quarter of 2008 were not material.

(footnotes continued on following page)

## **Table of Contents**

- (3) In the second quarter of 2009, the Company issued \$750 million of Senior Notes that mature in 2014.
  - (4) Includes all client trades that generate either commission revenue or revenue from principal markups (i.e., fixed income); also known as DART.
  - (5) Includes eligible trades executed by clients who participate in one or more of the Company's asset-based pricing relationships.
- N/M Not meaningful.

### **Capital Ratios**

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 the activities. To help manage capital adequacy, CSC currently utilizes a target Tier 1 Leverage Ratio, as defined by the Board of Governors of the Federal Reserve System (the Federal Reserve Board), of at least 6%. CSC's Tier 1 Leverage Ratio decreased slightly in the fourth quarter of 2009 due to strong balance sheet growth, but remained well above the 6% target.

Similarly, although CSC is not subject to the Tier 1 Capital Ratio of at least 5% required by the Federal Reserve Board for financial holding companies, we monitor that ratio as part of our capital management. The Tier 1 Capital Ratio remained well above 5% throughout 2009, with a moderate decline due to strong balance sheet growth.

Additionally, we track the Company's Tangible Common Equity Ratio, which also declined moderately during 2009 due to strong balance sheet growth. The Tangible Common Equity Ratio remained at or above 6% throughout the year.

### **Interest Rate 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 interest rate environment as well. The overall yields on certain money market mutual funds have fallen to levels at or below the management fees on those funds, and the Company continues to waive a portion of its fees which it began to do in the first quarter of 2009, in order to 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.

Given the low interest rate environment, the Company's revenue from interest-earning assets, such as securities held and loans to clients, has been declining more than the interest that the Company pays on funding sources, such as client deposits. The Company's ability to reduce the interest paid on funding sources has been limited as short-term rates have approached zero.

If the Federal Funds rate remains at year end 2009 levels through 2010, and assuming moderate increases in the S&P 500 index and slight declines in client daily average revenue trades, the Company anticipates that net revenues will grow slightly in 2010, its expenses would rise slightly faster as it invests for continued growth, and its pre-tax profit margin would therefore be slightly below the 30% level reported for 2009. To the extent that the Federal Funds rate rises moderately during 2010, the Company would expect to achieve stronger net revenue growth relative to the flat-interest scenario and a pre-tax profit margin moderately higher than 2009's result.

**Table of Contents**

# The offering

Common stock offered	26,316,000 shares
Over-allotment option	We have granted the underwriters a 30-day option to purchase a maximum of 3,947,400 additional shares of common stock to cover over-allotments, if any.
Common stock to be outstanding after this offering	1,188,423,608 shares (1,192,371,008 shares if the underwriters exercise their over-allotment option in full).
Use of proceeds	We estimate that the net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately \$480.8 million (approximately \$552.9 million if the underwriters exercise their over-allotment option in full), assuming a public offering price of \$19.00 per share, which was the last reported sale price of our common stock on the NASDAQ Stock Market on January 15, 2010.  We intend to use the net proceeds of this offering to support balance sheet growth, including expansion of our deposit base and potential migration of certain client balances from money market funds into Schwab Bank, which may be subject to notice and/or approvals from regulators and clients.
Certain U.S. federal income tax considerations	You should consult your tax advisor with respect to the U.S. federal income tax consequences of owning our common stock in light of your particular situation and with respect to any tax consequences arising under the laws of any state, local, foreign or other taxing jurisdiction. See Material United States federal income and estate tax consequences to non-U.S. holders.
Risk factors	See Risk factors beginning on page S-11 of this prospectus supplement and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of the factors you should carefully consider before deciding to invest in our common stock.
NASDAQ Stock Market Symbol	SCHW

S-7

**Table of Contents**

The number of shares of our common stock to be outstanding immediately after the offering is based on 1,162,107,608 shares outstanding as of December 31, 2009 and excludes (i) 57,211,927 shares issuable upon exercise of outstanding stock options, (ii) 1,683,799 shares issuable upon vesting with respect to outstanding restricted stock units and (iii) 229,983,936 shares of our common stock held in treasury.

Unless we specifically state otherwise, information in this prospectus supplement regarding the number of shares of our common stock outstanding after this offering also assumes that the underwriters do not exercise their option to purchase up to 3,947,400 of additional shares of our common stock within 30 days of the date of this prospectus supplement.

S-8

**Table of Contents****Summary historical selected financial data**

The following is the summary consolidated financial data for the Company for the nine-month periods ended September 30, 2009 and 2008 and the years ended December 31, 2008, 2007, 2006, 2005 and 2004.

The summary consolidated financial data for each of the five years ended December 31, 2008, 2007, 2006, 2005 and 2004 are derived from our audited consolidated financial statements. Our consolidated financial statements for each of the five fiscal years ended December 31, 2008, 2007, 2006, 2005 and 2004 were audited by Deloitte & Touche LLP, an independent registered public accounting firm. The summary condensed consolidated financial data for the Company for the nine-month periods ended September 30, 2009 and 2008 are derived from our unaudited condensed consolidated financial statements included in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2009 and September 30, 2008, and, in our opinion, such financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the data for those periods. Our results of operations for the nine-month period ended September 30, 2009, may not be indicative of results that may be expected for the full fiscal year.

The summary below should be read in conjunction with our unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, and our audited consolidated financial statements, and the related notes thereto, and the other detailed information contained in our 2008 Annual Report on Form 10-K for the year ended December 31, 2008, as updated by CSC's Current Report on Form 8-K filed on June 1, 2009 relating to CSC's realigned segment reporting structure and the retrospective adjustment to previously reported earnings per share data as a result of the adoption of a new accounting standard. For more information, see the section entitled "Where you can find more information."

**Selected Financial and Operating Data**

(In Millions, Except Per Share Amounts, Ratios, or as Noted)	Nine Months Ended September 30,		Year Ended December 31,				
	(Unaudited) 2009	(Unaudited) 2008	2008	2007	2006	2005	2004
<b>Results of Operations</b>							
Net revenues	\$ 3,207	\$ 3,866	\$ 5,150	\$ 4,994	\$ 4,309	\$ 3,619	\$ 3,416
Expenses excluding interest	\$ 2,197	\$ 2,345	\$ 3,122	\$ 3,141	\$ 2,833	\$ 2,592	\$ 2,869
Income from continuing operations	\$ 623	\$ 922	\$ 1,230	\$ 1,120	\$ 891	\$ 634	\$ 350
Net income(1)	\$ 623	\$ 904	\$ 1,212	\$ 2,407	\$ 1,227	\$ 725	\$ 286
Income from continuing operations per share basic(2)	\$ .54	\$ .80	\$ 1.07	\$ .93	\$ .70	\$ .49	\$ .26
Income from continuing operations per share diluted(2)	\$ .54	\$ .80	\$ 1.06	\$ .92	\$ .69	\$ .48	\$ .26
Basic earnings per share(1, 2, 3)	\$ .54	\$ .79	\$ 1.06	\$ 1.98	\$ .96	\$ .56	\$ .21
Diluted earnings per share (1, 2, 3)	\$ .54	\$ .78	\$ 1.05	\$ 1.96	\$ .95	\$ .55	\$ .21
Dividends declared per common share	\$ .180	\$ .160	\$ .220	\$ .200	\$ .135	\$ .089	\$ .074
Special dividend declared per common share	\$	\$	\$	\$ 1.00	\$	\$	\$
Weighted-average common shares outstanding diluted	1,160	1,157	1,157	1,222	1,286	1,308	1,365
Asset management and administration fees as a percentage of net revenues	45%	47%	46%	47%	45%	46%	45%

**Table of Contents**

(In Millions, Except Per Share Amounts, Ratios, or as Noted)	Nine Months Ended September 30,		Year Ended December 31,				
	(Unaudited) 2009	(Unaudited) 2008	2008	2007	2006	2005	2004
Net interest revenue as a percentage of net revenues	28%	33%	32%	33%	33%	28%	21%
Trading revenue as a percentage of net revenues(4)	24%	19%	21%	17%	18%	21%	30%
Effective income tax rate on income from continuing operations	38.3%	39.4%	39.3%	39.6%	39.6%	38.3%	36.0%
Capital expenditures purchases of equipment, office facilities, and property, net(5)	\$ 107	\$ 127	\$ 194	\$ 168	\$ 59	\$ 78	\$ 177
Capital expenditures, net, as a percentage of net revenues	3%	3%	4%	3%	1%	2%	5%

**Performance Measures**

Net revenue (decline) growth	(17)%	6%	3%	16%	19%	6%	5%
Pre-tax profit margin from continuing operations	31.5%	39.3%	39.4%	37.1%	34.3%	28.4%	16.0%
Return on stockholders' equity (annualized)	19%	31%	31%	55%	26%	16%	6%

**Financial Condition (at period end)**

Total assets	\$ 67,984	\$ 52,760	\$ 51,675	\$ 42,286	\$ 48,992	\$ 47,351	\$ 47,133
Long-term debt	\$ 1,516	\$ 881	\$ 883	\$ 899	\$ 388	\$ 462	\$ 533
Stockholders' equity	\$ 4,903	\$ 4,063	\$ 4,061	\$ 3,732	\$ 5,008	\$ 4,450	\$ 4,386
Assets to stockholders' equity ratio	14	13	13	11	10	11	11
Long-term debt to total financial capital (long-term debt plus stockholders' equity)	24%	18%	18%	19%	7%	9%	11%

**Employee Information**

Full-time equivalent employees(6) (at period end, in thousands)	12.2	13.5	13.4	13.3	12.4	11.6	11.8
Net revenues per average full-time equivalent employee (annualized, in thousands)	\$ 345	\$ 384	\$ 383	\$ 387	\$ 362	\$ 319	\$ 260

Note: All information contained in this table 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) The earnings per share data has been recomputed in accordance with FASB Staff Position on Emerging Issues Task Force Issue 03-6-1, which the Company adopted on January 1, 2009.
- (3) Both basic and diluted earnings per share include discontinued operations.
- (4) Trading revenue includes commission and principal transaction revenues.
- (5) 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.
- (6) Full-time equivalent employees in 2007 includes 365 employees related to the acquisition of The 401(k) Company on March 31, 2007.



## Table of Contents

## Risk factors

*Any investment in our common stock involves a high degree of risk. You should carefully consider, among other things, the matters discussed under "Risk factors" in our Annual Report on Form 10-K for the year ended December 31, 2008, and in other documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus. In addition to these matters, you should carefully consider the risks described below and all of the information contained in and incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding whether to purchase our common stock. The risks and uncertainties described below and those incorporated by reference herein are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the risks described below or incorporated by reference herein actually occur, our business, financial condition and results of operations could be materially adversely affected. In that event, the trading price of our common stock could decline, and you might lose all or part of your investment in our common stock. The risks described below or incorporated by reference herein also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See "Forward-looking statements."*

### **RISKS RELATED TO THIS OFFERING**

#### **The stock price of financial institutions, like CSC, can be volatile.**

Our stock price has fluctuated historically, and may continue to fluctuate. Among the factors that may affect the volatility of our 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 our industry, as well as geopolitical, economic and business factors unrelated to us, may also affect our stock price.

#### **Future sales of our common stock in the public market could adversely affect the trading price of our common stock and our ability to raise funds in new equity offerings.**

The issuance of the shares in this offering could have the effect of depressing the market price of our common stock. Sales by us or by our stockholders of a substantial number of shares of our common stock in the public market following this offering, or the perception that these sales might occur, could cause the market price of our common stock to decline or could impair our ability to raise capital through a future sale of our equity securities.

In connection with this offering, we and our executive officers and directors have agreed, subject to agreed upon exceptions, not to offer, sell, contract to sell or otherwise dispose of, directly or indirectly, or hedge our common stock or securities convertible into or exchangeable or exercisable for our common stock without the prior written consent of the representative of the underwriters for a period of 60 days



## **Table of Contents**

### **Risk factors**

after the date of this prospectus supplement. None of our other officers or stockholders have entered into any such lock-up agreement.

Our certificate of incorporation authorizes our 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. We may issue such additional equity or convertible securities to raise additional capital. The issuance of any additional shares of common or preferred stock or convertible securities could be substantially dilutive to stockholders of our common stock. Moreover, to the extent that we issue restricted stock awards or restricted stock units, stock appreciation rights, options or warrants to purchase our common stock in the future and those stock appreciation rights, options or warrants are exercised or as the restricted stock units vest, our stockholders may experience further dilution. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our stockholders.

### **We may not pay dividends on our common stock in the future.**

Holders of our common stock are only entitled to receive dividends as our Board of Directors may declare out of funds legally available for such payments. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, compliance with debt instruments, legal requirements and other factors as our Board of Directors deems relevant.

### **Offerings of debt, which would be senior to our common stock, and/or preferred equity securities which may be senior to our common stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our common stock.**

We may attempt to increase our capital resources by issuing debt or preferred equity securities, including trust preferred securities, senior or subordinated notes and preferred stock. Holders of our debt securities may be entitled to regular interest payments and may receive a security interest in our assets. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock.

Our Board of Directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. Our Board of Directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms.

Therefore, if we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

### **We will retain broad discretion in using the net proceeds from this offering, and may use the proceeds for corporate purposes that may not increase our market value or make us more profitable.**

We intend to retain and invest the net proceeds of this offering pending our use of the net proceeds to support balance sheet growth, including expansion of our deposit base and potential migration of certain

**Table of Contents**

**Risk factors**

client balances from money market funds into Schwab Bank, which may be subject to notice and/or approvals from regulators and clients. Our management will retain broad discretion with respect to the allocation of the net proceeds of this offering. The net proceeds may be applied in ways with which you and the other investors in the offering may not agree, and to the extent not used, may result in an excess of capital. Moreover, our management may use the proceeds for corporate purposes that may not increase our market value or make us more profitable.

**S-13**

**Table of Contents**

## Use of proceeds

We estimate that the net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, will be approximately \$480.8 million (approximately \$552.9 million if the underwriters exercise their over-allotment option in full), assuming a public offering price of \$19.00 per share, which was the last reported sale price of our common stock on the NASDAQ Stock Market on January 15, 2010.

We intend to use the net proceeds of this offering to support balance sheet growth, including expansion of our deposit base and potential migration of certain client balances from money market funds into Schwab Bank, which may be subject to notice and/or approvals from regulators and clients.

## Price range of common stock

Our common stock is traded on the NASDAQ Stock Market under the symbol SCHW. As of December 31, 2009, we had 1,162,107,608 shares of common stock outstanding. On December 31, 2009, there were 8,744 holders of record.

The following table sets forth the high and low sales prices of our common stock as reported by the NASDAQ Stock Market for the periods indicated. The source of the data presented below is Nasdaq Online, a service for Nasdaq-listed companies.

	Low	High
<b>2010</b>		
First Quarter (through January 15, 2010)	\$ 19.00	\$ 19.78
<b>2009</b>		
Fourth Quarter	\$ 16.94	\$ 19.49
Third Quarter	\$ 16.47	\$ 19.45
Second Quarter	\$ 15.31	\$ 18.92
First Quarter	\$ 11.34	\$ 16.63
<b>2008</b>		
Fourth Quarter	\$ 14.59	\$ 24.37
Third Quarter	\$ 18.78	\$ 26.00
Second Quarter	\$ 18.31	\$ 22.78
First Quarter	\$ 18.04	\$ 24.78
<b>2007</b>		
Fourth Quarter	\$ 21.60	\$ 25.55
Third Quarter	\$ 17.90	\$ 22.48
Second Quarter	\$ 18.55	\$ 22.69
First Quarter	\$ 17.76	\$ 20.35

The foregoing table shows only historical data. This data may not provide meaningful information to you in determining whether to purchase shares of our common stock. You are urged to obtain current market quotations for our common stock and to review carefully the other information contained in or incorporated by reference into the prospectus.

On January 15, 2010, the last reported price of our common stock on the NASDAQ Stock Market was \$19.00 per share.

S-14

**Table of Contents****Dividends**

The following table sets forth, for the periods indicated, the cash dividends per share declared and paid for our common stock.

	<b>Dividends paid per common share</b>
<b>2009</b>	
Fourth Quarter	\$ 0.06
Third Quarter	\$ 0.06
Second Quarter	\$ 0.06
First Quarter	\$ 0.06
<b>2008</b>	
Fourth Quarter	\$ 0.06
Third Quarter	\$ 0.06
Second Quarter	\$ 0.05
First Quarter	\$ 0.05
<b>2007</b>	
Fourth Quarter	\$ 0.05
Third Quarter	\$ 1.05
Second Quarter	\$ 0.05
First Quarter	\$ 0.05

The amounts of future dividends will depend upon earnings, overall financial condition and capital requirements, as well as general business and market conditions, and will be determined by our Board of Directors on a quarterly basis. We cannot assure you that the current \$0.06 quarterly cash dividend will not be reduced in the future. See also Risk factors Risks related to this offering We may not pay dividends on our common stock in the future.

S-15

**Table of Contents****Capitalization**

The following table sets forth the consolidated cash and cash equivalents and capitalization of CSC at September 30, 2009:

Ø on an actual basis;

Ø on an as adjusted basis, giving effect to this offering and the application of the net proceeds thereof, assuming a public offering price of \$19.00 per share, which was the last reported sale price of our common stock on the NASDAQ Stock Market on January 15, 2010. You should read the following table together with CSC's consolidated financial statements and notes thereto included in CSC's Annual Report on Form 10-K for the year ended December 31, 2008, as updated by CSC's Current Report on Form 8-K filed on June 1, 2009 relating to CSC's realigned segment reporting structure and the retrospective adjustment to previously reported earnings per share data as a result of the adoption of a new accounting standard, and Quarterly Report on Form 10-Q for the quarters ended March 31, 2009, June 30, 2009 and September 30, 2009, all of which are incorporated by reference in this prospectus supplement and the accompanying prospectus.

		As of September 30, 2009	
Capitalization assumes newly issued shares from common stock			
(In millions, except share and per share amounts)		Actual	As Adjusted
Cash and cash equivalents(1)		\$ 8,116	\$ 8,597
Long-term debt		\$ 1,516	\$ 1,516
Stockholders' equity:			
Preferred stock	9,940,000 shares authorized; \$.01 par value per share; none issued	\$	\$
Common stock	3 billion shares authorized; \$.01 par value per share; 1,392,091,544 shares issued actual; 1,418,407,544 shares as adjusted	14	14
Additional paid-in capital		2,278	2,759
Retained earnings		7,149	7,149
Treasury stock, at cost 230,052,516 shares		(4,292)	(4,292)
Accumulated other comprehensive loss		(246)	(246)
Total stockholders' equity		\$ 4,903	\$ 5,384
Total capitalization		\$ 6,419	\$ 6,900

(1) The cash and cash equivalents amount is reported on a consolidated basis, and includes cash held by us and our subsidiaries, including Schwab Bank. Our access to any cash held by our subsidiaries is subject to regulatory, statutory and other applicable requirements, including separate holding company and thrift capital regulatory requirements and statutory limits on dividends.

As of December 31, 2009, 1,162,107,608 shares were outstanding on an actual basis, and 1,188,423,608 were outstanding on an adjusted basis, in each case, excluding (i) 57,211,927 shares issuable upon exercise of outstanding stock options, (ii) 1,683,799 shares issuable upon vesting

with respect to outstanding restricted stock units and (iii) 229,983,936 shares of our common stock held in treasury.

**S-16**

---

**Table of Contents**

## Material United States federal income and estate tax consequences to non-U.S. holders

The following is a summary of the material United States federal income and estate tax consequences of the purchase, ownership and disposition of our common stock as of the date of this prospectus supplement. Except where noted, this summary deals only with common stock that is held as a capital asset by a non-U.S. holder.

A non-U.S. holder means a person (other than a partnership) that is not for United States federal income tax purposes any of the following:

Ø an individual citizen or resident of the United States;

Ø a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

Ø an estate the income of which is subject to United States federal income taxation regardless of its source; or

Ø a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the Code) and regulations, rulings and judicial decisions as of the date of this prospectus. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income and estate tax consequences different from those summarized below. This summary does not address all aspects of United States federal income and estate taxes and does not deal with foreign, state, local or other tax considerations that may be relevant to non-U.S. holders in light of their personal circumstances. In addition, it does not represent a detailed description of the United States federal income and estate tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws (including if you are a United States expatriate, controlled foreign corporation, passive foreign investment company, a partnership or other pass-through entity for United States federal income tax purposes). A change in law could alter significantly the tax considerations that we describe in this summary.

If a partnership holds our common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our common stock, you should consult your tax advisors.

**If you are considering the purchase of our common stock, you should consult your own tax advisors concerning the particular United States federal income and estate tax consequences to you of the ownership of our common stock, as well as the consequences to you arising under the laws of any other taxing jurisdiction.**

## **Table of Contents**

### **Material United States federal income and estate tax consequences to non-U.S. holders**

#### **DIVIDENDS**

Dividends paid to a non-U.S. holder of our common stock generally will be subject to withholding of United States federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the non-U.S. holder within the United States (and, where a tax treaty applies, are attributable to a United States permanent establishment of the non-U.S. holder) are not subject to the withholding tax, provided certain certification and disclosure requirements are satisfied. Instead, such dividends are subject to United States federal income tax on a net income basis in the same manner as if the non-U.S. holder were a United States person as defined under the Code. Any such effectively connected dividends received by a foreign corporation may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. A non-U.S. holder of our common stock who wishes to claim the benefit of an applicable treaty rate for dividends will be required to complete Internal Revenue Service Form W-8BEN (or other applicable form) and certify under penalty of perjury that such holder is eligible for benefits under the applicable treaty. Special certification and other requirements apply to certain non-U.S. holders that are pass-through entities rather than corporations or individuals. In addition, Treasury regulations provide special procedures for payments of dividends through certain intermediaries.

A non-U.S. holder of our common stock eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

#### **GAIN ON DISPOSITION OF COMMON STOCK**

Any gain realized on the disposition of our common stock generally will not be subject to United States federal income tax unless:

- Ø the gain is effectively connected with a trade or business of the non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment of the non-U.S. holder);
- Ø the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or
- Ø we are or have been a United States real property holding corporation for United States federal income tax purposes and certain other conditions are met.

An individual non-U.S. holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the sale under regular graduated United States federal income tax rates. An individual non-U.S. holder described in the second bullet point immediately above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by United States source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under the first bullet point immediately above, it will be subject to tax on its net gain in the same manner as if it were a United States person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not and do not anticipate becoming a United States real property holding corporation for United States federal income tax purposes.



## **Table of Contents**

### **Material United States federal income and estate tax consequences to non-U.S. holders**

#### **FEDERAL ESTATE TAX**

Common stock held by an individual (whether or not a non-U.S. holder) at the time of death will be included in such holder's gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

#### **INFORMATION REPORTING AND BACKUP WITHHOLDING**

We must report annually to the Internal Revenue Service and to each non-U.S. holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty.

A non-U.S. holder will be subject to backup withholding for dividends paid to such holder unless such holder certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that such holder is a United States person as defined under the Code), or such holder otherwise establishes an exemption.

Information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale of our common stock within the United States or conducted through certain United States-related financial intermediaries, unless the beneficial owner provides a properly executed Internal Revenue Service Form W-8BEN (or other applicable form) and certifies under penalty of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a United States person as defined under the Code) or such owner otherwise establishes an exemption. Certain stockholders, including all corporations, are exempt from the backup withholding rules.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a non-U.S. holder's United States federal income tax liability provided the required information is furnished to the Internal Revenue Service.

---

**Table of Contents**

## Certain ERISA considerations

Our common stock may be acquired by an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended, or ERISA, or by an individual retirement account or other plan subject to Section 4975 of the Code. A fiduciary of an employee benefit plan subject to ERISA must determine that the purchase of our common stock is consistent with its fiduciary duties under ERISA. The fiduciary of an ERISA plan, as well as any other prospective plan investor subject to Section 4975 of the Code must also determine that its acquisition of our common stock will not result in a non-exempt prohibited transaction as defined in Section 406 of ERISA and Section 4975 of the Code.

Governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to the fiduciary responsibility or prohibited transaction provisions of Title I of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, non-U.S. or other laws, which we refer to as Similar Laws. Each holder of our common stock who has acquired our common stock with the assets of any plan, account or other arrangement which is subject to Section 406 of ERISA, Section 4975 of the Code, or any Similar Law, each of whom we refer to as a Plan Investor, will be deemed to have represented by its acquisition of our common stock that it has not relied on our advice, the advice of the underwriters or the advice of any of our affiliates in reaching the decision to acquire our common stock, and that its acquisition of our common stock does not constitute or give rise to a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation of any applicable Similar Law. The sale of common stock to any Plan Investor is in no respect a representation by us, the underwriters or any of our or their respective affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by Plan Investors generally or any particular Plan Investor, or that such an investment is appropriate for Plan Investors generally or any particular Plan Investor.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in a breach of fiduciary duty or a non-exempt prohibited transaction, it is particularly important that fiduciaries, or other persons considering purchasing our common stock on behalf of, or with the assets of, any Plan Investor, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment.

**Table of Contents**

## Underwriting

We are offering the shares of our common stock described in this prospectus supplement and the accompanying prospectus through the underwriters named below. UBS Securities LLC is the sole book-running manager of this offering and the representative of the underwriters. We have entered into an underwriting agreement with the representative. Subject to the terms and conditions of the underwriting agreement, each of the underwriters has severally agreed to purchase the number of shares of common stock listed next to its name in the following table.

	Number of
Underwriters	shares
UBS Securities LLC	
Citigroup Global Markets Inc.	
J.P. Morgan Securities Inc.	
Credit Suisse Securities (USA) LLC	
Wells Fargo Securities, LLC	
BNY Mellon Capital Markets, LLC	
Calyon Securities (USA) Inc.	
PNC Capital Markets LLC	
Total	26,316,000

The underwriting agreement provides that the underwriters must buy all of the shares if they buy any of them. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

Our common stock is offered subject to a number of conditions, including:

Ø receipt and acceptance of our common stock by the underwriters, and

Ø the underwriters' right to reject orders in whole or in part.

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses electronically.

### OVER-ALLOTMENT OPTION

We have granted the underwriters an option to buy up to an aggregate of 3,947,400 of additional shares of our common stock. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with this offering. The underwriters have 30 days from the date of this prospectus supplement to exercise this option. If the underwriters exercise this option, they will each purchase additional shares approximately in proportion to the amounts specified in the table above.

### COMMISSIONS AND DISCOUNTS

Shares sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus supplement. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$ \_\_\_\_\_ per share from the public

## Edgar Filing: SCHWAB CHARLES CORP - Form 424B5

offering price. Any of these securities dealers may resell any shares purchased from the underwriters to other brokers or dealers at a discount of up to \$ per share from the public offering price. Sales of shares made outside the US may be

S-21

**Table of Contents****Underwriting**

made by affiliates of the underwriters. If all the shares are not sold at the public offering price, the representative may change the offering price and the other selling terms. Upon execution of the underwriting agreement, the underwriters will be obligated to purchase the shares at the prices and upon the terms stated therein.

The following table shows the per share and total underwriting discounts and commissions we will pay to the underwriters assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of our common stock.

	<b>No exercise</b>	<b>Full exercise</b>
Per share	\$	\$
Total	\$	\$

We estimate that the total expenses of this offering payable by us, not including the underwriting discounts and commissions, will be approximately \$500,000.

**NO SALES OF SIMILAR SECURITIES**

We and our executive officers and directors have entered into lock-up agreements with the underwriters. Under these agreements, subject to certain exceptions, we and each of these persons may not, without the prior written approval of UBS Securities LLC, offer, sell, contract to sell or otherwise dispose of, directly or indirectly, or hedge our common stock or securities convertible into or exchangeable or exercisable for our common stock. These restrictions will be in effect for a period of 60 days after the date of this prospectus supplement. At any time and without public notice, UBS Securities LLC, may, in its sole discretion, release some or all of the securities from these lock-up agreements.

**INDEMNIFICATION**

We have agreed to indemnify the underwriters against certain liabilities, including certain liabilities under the Securities Act. If we are unable to provide this indemnification, we have agreed to contribute to payments the underwriters may be required to make in respect of those liabilities.

**NASDAQ STOCK MARKET LISTING**

Our common stock is listed on the NASDAQ Stock Market under the symbol SCHW.

**PRICE STABILIZATION, SHORT POSITIONS**

In connection with this offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common stock, including:

Ø stabilizing transactions;

Ø short sales;

Ø purchases to cover positions created by short sales;

Ø imposition of penalty bids; and

Ø syndicate covering transactions.

S-22

## **Table of Contents**

### **Underwriting**

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while this offering is in progress. These transactions may also include making short sales of our common stock, which involve the sale by the underwriters of a greater number of shares of common stock than they are required to purchase in this offering, and purchasing shares of common stock on the open market to cover positions created by short sales. Short sales may be covered short sales, which are short positions in an amount not greater than the underwriters' over-allotment option referred to above, or may be naked short sales, which are short positions in excess of that amount.

The underwriters may close out any covered short position by either exercising their over-allotment option, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.

Naked short sales are short sales made in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market that could adversely affect investors who purchased in this offering.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representative has repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

As a result of these activities, the price of our common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. The underwriters may carry out these transactions on The NASDAQ Stock Market, in the over-the-counter market or otherwise.

### **AFFILIATIONS**

Certain of the underwriters and their affiliates have in the past provided, are currently providing and may in the future from time to time provide, investment banking and other financing, trading, banking, research, transfer agent and trustee services to the Company or its subsidiaries (including as parties to the Company's credit agreement), for which they have in the past received, and may currently or in the future receive, customary fees and expenses.

## **Notice to investors**

### **EUROPEAN ECONOMIC AREA**

In relation to each Member State of the European Economic Area, or EEA, which has implemented the Prospectus Directive (each, a Relevant Member State) with effect from, and including, the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an offer to the public of our securities which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State, except that, with

## **Table of Contents**

effect from, and including, the Relevant Implementation Date, an offer to the public in that Relevant Member State of our securities may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- a) to legal entities which are authorized or regulated to operate in the financial markets, or, if not so authorized or regulated, whose corporate purpose is solely to invest in our securities;
- b) to any legal entity which has two or more of: (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or
- c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representative for any such offer; or
- d) in any other circumstances falling within Article 3(2) of the Prospectus Directive provided that no such offer of our securities shall result in a requirement for the publication by us or any underwriter or agent of a prospectus pursuant to Article 3 of the Prospectus Directive.

As used above, the expression "offered to the public" in relation to any of our securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and our securities to be offered so as to enable an investor to decide to purchase or subscribe for our securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The EEA selling restriction is in addition to any other selling restrictions set out in this prospectus.

### **UNITED KINGDOM**

This prospectus is only being distributed to and is only directed at: (1) persons who are outside the United Kingdom; (2) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); or (3) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons falling within (1)-(3) together being referred to as "relevant persons"). The shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this prospectus or any of its contents.

### **SWITZERLAND**

The Prospectus does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations ("CO") and the shares will not be listed on the SIX Swiss Exchange. Therefore, the Prospectus may not comply with the disclosure standards of the CO and/or the listing rules (including any prospectus schemes) of the SIX Swiss Exchange. Accordingly, the shares may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors, which do not subscribe to the shares with a view to distribution.

## **Table of Contents**

### **Notice to investors**

### **HONG KONG**

Our securities may not be offered or sold in Hong Kong, by means of this prospectus or any document other than (i) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong). No advertisement, invitation or document relating to our securities may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the securities which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

### **SINGAPORE**

This document has not been registered as a prospectus with the Monetary Authority of Singapore and in Singapore, the offer and sale of our securities is made pursuant to exemptions provided in sections 274 and 275 of the Securities and Futures Act, Chapter 289 of Singapore ( SFA ). Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our securities may not be circulated or distributed, nor may our securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor as defined in Section 4A of the SFA pursuant to Section 274 of the SFA, (ii) to a relevant person as defined in section 275(2) of the SFA pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with the conditions (if any) set forth in the SFA. Moreover, this document is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. Prospective investors in Singapore should consider carefully whether an investment in our securities is suitable for them.

Where our securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 of the SFA, except:

(1) to an institutional investor (for corporations under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such

## **Table of Contents**

### **Notice to investors**

shares of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA;

(2) where no consideration is given for the transfer; or

(3) where the transfer is by operation of law.

In addition, investors in Singapore should note that the securities acquired by them are subject to resale and transfer restrictions specified under Section 276 of the SFA, and they, therefore, should seek their own legal advice before effecting any resale or transfer of their securities.

### **JAPAN**

Our securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and our securities will not be offered or sold, directly or indirectly, in Japan, or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan, or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

S-26

**Table of Contents**

## Validity of Securities

The validity of the issuance of the common stock offered hereby by us will be passed upon for us by Howard Rice Nemerovski Canady Falk & Rabkin, A Professional Corporation, San Francisco, California. Directors of that firm beneficially own an aggregate of less than 1% of CSC's common stock. The underwriters have been represented by Simpson Thacher & Bartlett LLP, New York, New York.

## Experts

Our consolidated financial statements as of December 31, 2008 and 2007, and for each of the years in the three-year period ended December 31, 2008, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2008, have been incorporated by reference herein in reliance upon the reports of Deloitte & Touche LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

S-27

**Table of Contents**

## **The Charles Schwab Corporation**

**Debt Securities**

**Preferred Stock**

**Depository Shares**

**Common Stock**

**Purchase Contracts**

**Warrants**

**Units Consisting of Two or More Securities**

## **Schwab Capital Trust II      Schwab Capital Trust III** **Trust Preferred Securities**

### **Fully and Unconditionally Guaranteed by The Charles Schwab Corporation**

The Charles Schwab Corporation from time to time may offer and sell debt securities, preferred stock, depository shares, common stock, purchase contracts, warrants and units consisting of two or more of the securities being offered by this prospectus. Our debt securities, preferred stock, purchase contracts and warrants may be convertible into or exchangeable for shares of our common stock or other securities.

Schwab Capital Trust II and Schwab Capital Trust III are Delaware statutory trusts and are referred to as the trusts. Each trust may from time to time:

sell trust preferred securities representing undivided beneficial interests in the trust to the public;

sell trust common securities representing undivided beneficial interests in the trust to The Charles Schwab Corporation;

use the proceeds from these sales to buy an equal principal amount of junior subordinated debentures of The Charles Schwab Corporation; and

distribute the cash payments it receives or the junior subordinated debentures it owns to the holders of the trust preferred and trust common securities.

We will fully and unconditionally guarantee the payment by the trusts of the trust preferred securities based on obligations discussed in this prospectus. This is called the trust preferred securities guarantee.

The common stock of The Charles Schwab Corporation is listed on the NASDAQ Global Select Market and trades under the symbol SCHW.

We will provide the specific terms of any securities to be offered and the specific manner in which they may be offered in supplements to this prospectus. You should read this prospectus and the accompanying prospectus supplement or supplements carefully before you invest.

## Edgar Filing: SCHWAB CHARLES CORP - Form 424B5

This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement for those securities.

These securities are not deposits or other obligations of any bank or savings association and the securities are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

**Neither the Securities and Exchange Commission, any state securities commission, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

Charles Schwab & Co., Inc., which is our wholly-owned subsidiary, or any of our affiliates may use this prospectus and any accompanying prospectus supplement in connection with offers and sales of the securities in market-making transactions for any of the securities listed above or similar securities after their initial sale. Unless you are informed otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.

**The date of this prospectus is December 16, 2008**

**Table of Contents**

**TABLE OF CONTENTS**

<u>ABOUT THIS PROSPECTUS</u>	1
<u>FORWARD-LOOKING STATEMENTS</u>	1
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	2
<u>THE CHARLES SCHWAB CORPORATION</u>	3
<u>THE TRUSTS</u>	3
<u>CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES</u>	4
<u>USE OF PROCEEDS</u>	5
<u>DESCRIPTION OF DEBT SECURITIES OF THE CHARLES SCHWAB CORPORATION</u>	5
<u>DESCRIPTION OF THE TRUST PREFERRED SECURITIES</u>	14
<u>DESCRIPTION OF THE JUNIOR SUBORDINATED DEBENTURES OF THE CHARLES SCHWAB CORPORATION</u>	25
<u>DESCRIPTION OF THE TRUST SECURITIES GUARANTEES OF THE CHARLES SCHWAB CORPORATION</u>	36
<u>RELATIONSHIP AMONG THE TRUST PREFERRED SECURITIES, THE CORRESPONDING JUNIOR SUBORDINATED DEBENTURES AND THE TRUST SECURITIES GUARANTEES</u>	38
<u>DESCRIPTION OF PREFERRED STOCK</u>	40
<u>DESCRIPTION OF DEPOSITARY SHARES</u>	43
<u>DESCRIPTION OF COMMON STOCK</u>	45
<u>DESCRIPTION OF PURCHASE CONTRACTS</u>	47
<u>DESCRIPTION OF WARRANTS</u>	47
<u>DESCRIPTION OF UNITS</u>	50
<u>GLOBAL SECURITIES</u>	51
<u>PLAN OF DISTRIBUTION</u>	54
<u>VALIDITY OF SECURITIES</u>	56
<u>EXPERTS</u>	56

## **Table of Contents**

### **ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, which we refer to as the SEC, utilizing a shelf registration process. Under this shelf registration process, we may from time to time sell any combination of the securities described in this prospectus in one or more offerings. We may offer debt securities of The Charles Schwab Corporation; trust preferred securities of the trusts and related junior subordinated debentures and guarantees of The Charles Schwab Corporation; preferred stock, depositary shares and common stock of The Charles Schwab Corporation; and purchase contracts and units consisting of two or more securities. We may also offer warrants to purchase debt securities or warrants to purchase or sell, or whose cash value is determined by reference to the performance level, or value of, one or more of:

securities of one or more issuers, including our common stock, preferred stock or depositary shares, other securities described in this prospectus or the debt or equity securities of third parties;

one or more currencies, currency units or composite currencies;

one or more commodities;

any other financial, economic or other measure or instrument, including the occurrence or non-occurrence of any event or circumstance; and

one or more indices or baskets of the items described in this paragraph.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described under the heading **Where You Can Find More Information**. The prospectus supplement may also contain information about United States federal income tax considerations relating to the securities covered by the prospectus supplement.

References in this prospectus to **we**, **us** and **our** mean The Charles Schwab Corporation. References to the **trusts** mean Schwab Capital Trust II and Schwab Capital Trust III. References to **junior subordinated debentures** mean junior subordinated debentures issued by us to a trust in connection with the trust's issuance of trust preferred securities.

### **FORWARD-LOOKING STATEMENTS**

This prospectus and any accompanying prospectus supplements, including the documents incorporated by reference, do or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (referred to here as the **Securities Act**), and Section 21E of the Securities Exchange Act of 1934, as amended (referred to here as the **Exchange Act**). Forward-looking statements are identified by words such as **believe**, **anticipate**, **expect**, **intend**, **plan**, **will**, **may**, **estimate**, **aim**, **target**, and other similar expressions. Forward-looking statements, which may be expressed in a variety of ways, including the use of future or present tense language, refer to future events. In addition, any statements that 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 of this prospectus, the prospectus supplement, or in the case of documents incorporated by reference, as of the date of those documents, are necessarily estimates based on the best judgment of our senior management. 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. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus, the prospectus supplement or, in the case of documents incorporated by reference, as of the date of those documents.

## Edgar Filing: SCHWAB CHARLES CORP - Form 424B5

You should refer to our periodic and current reports filed with the SEC or to an applicable prospectus supplement for specific risks which could cause actual results to be significantly different from those expressed

## **Table of Contents**

or implied by these forward-looking statements, including risks described in the **Risk Factors** section. See **Where You Can Find More Information** in this prospectus for information about how to obtain copies of our periodic and current reports.

Statements in this prospectus, any prospectus supplement, and any documents incorporated by reference speak only as of the date on which those statements are made, and we undertake no obligation to update any statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

### **WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC a registration statement (Nos. 333- , 333- -01 and 333- -02) under the Securities Act relating to the securities offered by this prospectus. This prospectus is a part of that registration statement, which includes additional information.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. Copies of certain information filed by us with the SEC are also available on our corporate website at <http://www.aboutschwab.com>. We have included the SEC's website address and our website address as inactive textual references only, and the information contained on those websites is not a part of this prospectus. You may also read and copy any document that we file at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Our common stock is listed on the NASDAQ Global Select Market. You may inspect reports, proxy statements and other information about us at the offices of The NASDAQ Stock Market LLC, One Liberty Plaza, 165 Broadway, New York, NY 10006.

The SEC allows us to incorporate by reference information we file with it, which means that we can disclose important information to you by referring you to other documents. The information incorporated by reference is considered to be a part of this prospectus and information that we file later with the SEC will automatically update and supersede this information. In all cases, you should rely on the later information over different information included in this prospectus.

We incorporate by reference the documents listed below and any future filings we make with the SEC after the date of this prospectus under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act until our offering is completed, other than, in each case, documents or portions of documents furnished and not filed:

Annual report on Form 10-K for the fiscal year ended December 31, 2007;

Quarterly reports on Form 10-Q for the quarterly periods ended March 31, 2008, June 30, 2008 and September 30, 2008;

Current reports on Form 8-K filed on February 26, May 28, July 25, September 12, September 29, October 28 and November 20, 2008; and

The description of our common stock contained in our registration statement filed under Section 12 of the Exchange Act, and any amendment or report filed for the purpose of updating that description.

You may request a copy of these filings at no cost, by writing, telephoning or sending an email to us at the following address:

**The Charles Schwab Corporation**

**101 Montgomery Street**

**San Francisco, California 94104**

**Attention: Corporate Secretary**

Edgar Filing: SCHWAB CHARLES CORP - Form 424B5

**Telephone: (415) 627-7000**

**Email: [investor.relations@schwab.com](mailto:investor.relations@schwab.com)**

## **Table of Contents**

### **THE CHARLES SCHWAB CORPORATION**

The Charles Schwab Corporation was incorporated under the laws of Delaware in 1986 and is headquartered in San Francisco, California. We are a savings and loan holding company and engage, through our subsidiaries, in securities brokerage, banking and related financial services. Our significant subsidiaries include:

Charles Schwab & Co., Inc., which was incorporated in 1971, is a securities broker-dealer with branch offices nationwide and in the Commonwealth of Puerto Rico and London, U.K., and serves clients in Hong Kong through one of its subsidiaries;

Charles Schwab Bank, which commenced operations in 2003, is a retail bank located in Reno, Nevada; and

Charles Schwab Investment Management, Inc., is the investment advisor for Schwab's proprietary mutual funds, which are referred to as the Schwab Funds.

Because we are a holding company, we are dependent upon the earnings and cash flow of our subsidiaries to meet our obligations. We, as a savings and loan holding company, and Charles Schwab Bank, as a federal savings bank, are both subject to supervision and regulation by the Office of Thrift Supervision. As our depository institution subsidiary, Charles Schwab Bank is also subject to supervision and regulation and to various requirements and restrictions under federal and state laws, including regulatory capital guidelines. Among other things, these requirements govern transactions with us and our non-depository institution subsidiaries, including loans and other extensions of credit, investments or asset purchases, dividends, and investments. In addition, some of our other subsidiaries, including Charles Schwab & Co., Inc., are restricted from paying dividends or making loans or advances to us by net capital requirements under the Exchange Act and under rules of securities exchanges and other regulatory bodies. Our rights and the rights of our creditors, including the holders of debt securities and junior subordinated debentures, to participate in the assets of any of our subsidiaries upon the subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors except to the extent that we may ourselves be a creditor with recognized claims against the subsidiary.

Our principal executive office is located at 120 Kearny Street, San Francisco, California 94108. Our telephone number is (415) 636-7000. Our corporate Internet website is <http://www.aboutschwab.com>. We have included our website address as an inactive textual reference only, and the information contained on our website is not a part of this prospectus.

### **THE TRUSTS**

Each of the trusts is a statutory trust formed in 2004 under Delaware law pursuant to a trust agreement between The Charles Schwab Corporation, as depositor of each trust, and the Delaware trustee (as defined below), and the filing of a certificate of trust with the Delaware Secretary of State. The trust agreement of each trust was amended and restated in its entirety in 2007 to continue the existence of each trust. The trust agreement of each trust will again be amended and restated in its entirety, substantially in the form filed as an exhibit to the registration statement of which this prospectus is a part (each of these amended and restated trust agreements is referred to as a "trust agreement"), prior to the issuance of trust preferred securities by the trust. Each trust agreement will be qualified as an indenture under the Trust Indenture Act of 1939, as amended.

Each trust exists for the exclusive purposes of:

issuing and selling trust preferred securities to investors and trust common securities to The Charles Schwab Corporation (the trust preferred securities and trust common securities as to a particular trust are together referred to as such trust's "trust securities");

## Table of Contents

investing the gross proceeds of the trust securities in a series of corresponding junior subordinated debentures issued by The Charles Schwab Corporation; and

engaging only in those activities convenient, necessary or incidental thereto (such as registering the transfer of the trust securities). As a result, the corresponding junior subordinated debentures will be the only assets of the trust, and the payments under the junior subordinated debentures will be the only revenues of the trust. All of the trust common securities will be directly or indirectly owned by The Charles Schwab Corporation. The trust common securities will rank equally with, and payments will be made *pro rata* with, the trust preferred securities of the related trust, except that upon the occurrence and continuance of an event of default under the trust agreement resulting from an event of default under the junior subordinated indenture, the rights of the holders of the trust common securities to payment in respect of distributions and payments upon liquidation or redemption will be subordinated to the rights of the holders of the related trust preferred securities. Unless otherwise indicated in the applicable prospectus supplement, we will acquire all of the trust common securities of each trust in an aggregate liquidation amount equal to at least three percent of the total capital of the trust.

Each trust's business and affairs will be conducted by its trustees, each appointed by The Charles Schwab Corporation as holder of the related trust common securities. Unless otherwise indicated in any prospectus supplement, the trustees of each trust will be The Bank of New York Mellon Trust Company, N.A. as the property trustee, BNY Mellon Trust of Delaware as the Delaware trustee, and individual trustees, the administrative trustees, who are employees or officers of or affiliated with The Charles Schwab Corporation or its subsidiaries. The Bank of New York Mellon Trust Company, N.A., as the property trustee, will act as sole trustee under each trust agreement for purposes of compliance with the Trust Indenture Act. The property trustee, unless otherwise indicated in any prospectus supplement, will also act as trustee under the guarantees and the junior subordinated indenture. See Description of the Trust Securities Guarantees of The Charles Schwab Corporation and Description of the Junior Subordinated Debentures of The Charles Schwab Corporation.

The holder of the trust common securities of each trust, or the holders of a majority in liquidation amount of the trust preferred securities of such trust if an event of default under the trust agreement has occurred and is continuing, will be entitled to appoint, remove or replace the property trustee and/or the Delaware trustee for the trust. The right to vote to appoint, remove or replace the administrative trustees is vested exclusively in the holders of the trust common securities, and in no event will the holders of trust preferred securities have such right.

Unless otherwise specified in the applicable prospectus supplement, each trust has a defined term, but may be terminated earlier as provided in the applicable trust agreement.

The Charles Schwab Corporation will pay all fees and expenses related to the trusts and the offering of trust securities and will pay all ongoing costs, expenses and liabilities of each trust.

The principal executive office of each trust is c/o The Charles Schwab Corporation, 120 Kearny Street, San Francisco, California 94108, Attention: Corporate Secretary, and its telephone number is (415) 636-7000.

## CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratio of earnings to fixed charges for the periods indicated.

	Nine Months Ended September 30,	Year Ended December 31,				
	2008	2007	2006	2005	2004	2003
Ratio of earnings to fixed charges (1)	7.4	3.7	3.0	2.8	3.3	4.1
Ratio of earnings to fixed charges, excluding brokerage and banking client interest expense (2)	14.8	17.0	14.7	10.9	6.0	6.2

---

**Table of Contents**

- (1) The ratio of earnings to fixed charges is calculated in accordance with SEC requirements. For such purposes, earnings consist of earnings from continuing operations before taxes on earnings, extraordinary gain and fixed charges. Fixed charges consist of interest expense incurred on brokerage client cash balances, deposits from banking clients, long-term debt and other interest-bearing liabilities. Fixed charges also include one-third of rental expense, which is estimated to be representative of the interest factor. For all periods presented there were no preference dividends.
- (2) Because interest expense incurred in connection with both payables to brokerage clients and deposits from banking clients is completely offset by interest revenue on related investments and margin loans, we consider such interest to be an operating expense. Accordingly, the ratio of earnings to fixed charges, excluding brokerage and banking client interest expense, reflects the elimination of such interest expense as a fixed charge.

**USE OF PROCEEDS**

Unless otherwise described in the applicable prospectus supplement, we will use the net proceeds from the sale of the offered securities for general corporate purposes. General corporate purposes include working capital, capital expenditures, investments in or loans to our subsidiaries, refinancing or repayment of debt, including outstanding commercial paper and other short-term indebtedness, if any, redemption or repurchase of our outstanding securities, funding of possible acquisitions and satisfaction of other obligations.

**ERISA Matters**

The Employee Retirement Income Security Act of 1974, as amended, referred to here as ERISA, imposes certain restrictions on employee benefit plans that are subject to ERISA and on persons who are fiduciaries with respect to those plans. In accordance with ERISA's general fiduciary requirements, a fiduciary with respect to any such plan who is considering the purchase of the debt or equity securities of The Charles Schwab Corporation or the trust preferred securities of the trusts on behalf of the plan should determine whether the purchase is permitted under the governing plan documents and is prudent and appropriate for the plan in view of its overall investment policy and the composition and diversification of its portfolio.

The Charles Schwab Corporation has subsidiaries and affiliates, including broker-dealer subsidiaries and affiliates, that provide services to many employee benefit plans. The Charles Schwab Corporation and any direct or indirect subsidiary or affiliate of The Charles Schwab Corporation may each be considered a party in interest within the meaning of ERISA and a disqualified person under corresponding provisions of the Internal Revenue Code of 1986, as amended, referred to here as the Code, to many employee benefit plans and retirement accounts. Prohibited transactions within the meaning of ERISA and the Code may result if any offered securities are acquired by an employee benefit plan as to which The Charles Schwab Corporation or any direct or indirect subsidiary or affiliate of The Charles Schwab Corporation is a party in interest, unless the offered securities are acquired pursuant to an applicable statutory or administrative exemption.

Any employee benefit plan or other entity to which such provisions of ERISA or the Code apply proposing to acquire the offered securities should consult with its legal counsel. Please consult the applicable prospectus supplement for further information with respect to a particular offering of securities.

**DESCRIPTION OF DEBT SECURITIES OF THE CHARLES SCHWAB CORPORATION**

The debt securities will be either senior debt securities or senior subordinated debt securities and will be issued in one or more series under one or more separate indentures between us and a trustee. Senior debt securities will be issued under a senior indenture and senior subordinated debt securities will be issued under a

## **Table of Contents**

senior subordinated indenture. Except as otherwise set forth in the applicable prospectus supplement, The Bank of New York Mellon Trust Company, N.A. will be the trustee under the indentures. The Bank of New York Mellon Trust Company, N.A. serves as trustee for series of our outstanding indebtedness under other indentures. The debt securities may provide that they may be convertible into or exchangeable for shares of our common stock or other securities. In the following discussion, we sometimes refer to the senior indenture and the senior subordinated indenture as the indentures. When we refer to the trustee, we mean both the senior trustee and the senior subordinated trustee unless we indicate otherwise. Each indenture is qualified under the Trust Indenture Act, and the terms of the debt securities will include those stated in the applicable indenture and those made part of the indenture by reference to the Trust Indenture Act.

This section of the prospectus summarizes the material terms of the senior indenture, the senior subordinated indenture, the senior debt securities and the senior subordinated debt securities to be offered by any prospectus supplement. It is not complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the respective indentures as may be amended or supplemented, including the definitions of terms, and the Trust Indenture Act. The particular terms of the debt securities offered by any prospectus supplement will be described in the prospectus supplement relating to the offered securities. The terms of any series of debt securities may differ from the terms described below. For additional information, you should look at the applicable indenture and certificates evidencing the applicable debt security that is filed as an exhibit to the registration statement that includes this prospectus. We encourage you to read these indentures. Instructions on how you can get copies of these documents is provided above under the heading **Where You Can Find More Information**.

### **General**

We may issue the debt securities from time to time, without limitation as to aggregate principal amount, and in one or more series. We are not limited as to the amount of debt securities that we may issue under the indentures. Unless otherwise provided in a prospectus supplement, a series of debt securities may be reopened to issue additional debt securities of such series. This section summarizes the terms of the debt securities that are common to all series, whether senior or senior subordinated. The debt securities will not be secured by any of our property or assets. All of the discussions below are subject to, and qualified by, the information contained in the applicable prospectus supplement.

We may issue debt securities upon the satisfaction of conditions contained in the indentures. Most of the material financial and other specific terms of the debt securities of your series will be described in the prospectus supplement relating to your series, including:

the title of your series of debt securities;

any limit on the aggregate principal amount or initial offering price of your series of debt securities;

the date or dates on which your series of debt securities will mature;

the annual rate or rates (which may be fixed or variable) at which your series of debt securities will bear interest, if any, and the date or dates from which the interest, if any, will accrue;

the dates on which interest, if any, on your series of debt securities will be payable and the regular record dates for those interest payment dates;

the place where the principal and interest are payable;

the person to whom interest is payable if other than the registered holder on the record date;

any mandatory or optional sinking funds or analogous provisions or provisions for redemption at your option;

the date, if any, after which and the price or prices at which your series of debt securities may, in accordance with any optional or mandatory redemption provisions, be redeemed and the other detailed terms and provisions of any such optional or mandatory redemption provision;

**Table of Contents**

if other than denominations of \$1,000 and any integral multiple thereof, the denomination in which your series of debt securities will be issuable;

any events of default in addition to those in the indenture;

any other covenant or warranty in addition to those in the indenture;

if debt securities are sold for one or more foreign currencies or foreign currency units, or principal, interest or premium are payable in foreign currencies or foreign currency units, the restrictions, elections, tax consequences and other information regarding the issue and currency or currency units;

the currency of payment of principal, premium, if any, and interest on your series of debt securities if other than in United States dollars;

any index or formula used to determine the amount of payment of principal of, premium, if any, and interest on your series of debt securities;

the portion of the principal amount that will be payable upon acceleration of maturity, if other than the entire principal amount;

if the principal amount payable at a stated maturity will not be determinable as of any date prior to stated maturity, the amount or method of determining the amount which will be deemed to be the principal amount;

any paying agents, authenticating agents, security registrars or other agents for the debt;

the applicability of the provisions described below under Discharge; Defeasance and Covenant Defeasance ;

whether any debt securities will be certificated securities or will be issued in the form of one or more global securities and the depositary for the global security or securities;

whether your series of debt securities are subordinated debt securities or senior debt securities;

if your series of debt securities are subordinated debt securities, whether the subordination provisions summarized below or different subordination provisions will apply;

if debt securities are sold bearing no interest or below market interest, known as original issue discount securities, the amount payable upon acceleration and special tax, accounting and other considerations;

the price or prices at which your series of debt securities will be issued;

the convertibility or exchangeability, if any, of your series of debt securities into any other debt or equity securities; and

any other material terms of your series of debt securities.

The terms may vary from the terms described here. This summary is qualified by reference to the description of the terms of your series to be described in the prospectus supplement.

Prospective purchasers of debt securities should be aware that special federal income tax, accounting and other considerations may be applicable to instruments such as the debt securities. The prospectus supplement relating to an issue of debt securities will describe these considerations, if they apply.

A debt security may be an original issue discount debt security. A debt security of this type is issued at a price lower than its principal amount and provides that, upon redemption or acceleration of its maturity, an amount less than its principal amount will be payable. An original issue discount debt security may be a zero coupon debt security. A debt security issued at a discount to its principal may, for U.S. federal income tax purposes, be considered an original issue discount debt security. If we issue an original issue discount debt security, the prospectus supplement will contain a description of the U.S. federal income tax consequence related to the issuance.

## **Table of Contents**

### **Senior Debt**

Our senior debt securities will be issued under the senior debt indenture and will rank equally with all of our other unsecured and unsubordinated debt.

### **Senior Subordinated Debt**

We may issue senior subordinated debt securities under the senior subordinated debt indenture. Senior subordinated debt securities will be subordinate and junior in right of payment to all of our senior indebtedness.

In some circumstances relating to our liquidation, dissolution, winding-up, reorganization, insolvency or similar proceedings, the holders of all senior indebtedness will be entitled to receive payment in full before the holders of the subordinated debt securities will be entitled to receive any payment on the subordinated debt securities.

In addition, we may make no payment on the subordinated debt securities in the event:

there is a default in any payment or delivery on any senior indebtedness; or

there is an event of default on any senior indebtedness which permits the holders of the senior indebtedness to accelerate the maturity of the senior indebtedness.

By reason of this subordination in favor of the holders of senior indebtedness, in the event of an insolvency, our creditors who are not holders of senior indebtedness or the subordinated debt securities may recover less, proportionately, than holders of senior indebtedness and may recover more, proportionately, than holders of the subordinated debt securities.

Unless otherwise specified in a prospectus supplement, senior indebtedness will include the principal of and premium, if any, and interest on our indebtedness, whether outstanding on the date of the senior subordinated debt indenture or later created, that is:

for money that we borrowed, including capitalized lease obligations;

for money borrowed by others and guaranteed, directly or indirectly, by us; or

secured and unsecured purchase money indebtedness or indebtedness secured by property at the time of our acquisition of the property for the payment of which we are directly or contingently liable.

Senior indebtedness also includes all deferrals, renewals, extensions and refundings of and amendments, modifications and supplements to the senior indebtedness described in the preceding sentence.

Senior indebtedness does not include:

our indebtedness to any of our subsidiaries for money borrowed or advances from any subsidiary;

the senior subordinated debt securities; or

## Edgar Filing: SCHWAB CHARLES CORP - Form 424B5

any indebtedness if the terms creating or evidencing the indebtedness expressly provide that the indebtedness is not superior in right of payment to the senior subordinated debt securities and/or that the indebtedness is not superior in right of payment to any of our other indebtedness that is equal to or subordinated to the senior subordinated debt securities in right of payment.

Indebtedness is obligations of, or guaranteed or assumed by, us for borrowed money or evidenced by bonds, debentures, notes or other similar instruments, including capitalized lease obligations.

## **Table of Contents**

At September 30, 2008, we owed a total of approximately \$458 million in principal amount of medium term notes, all of which was senior indebtedness, without counting any accrued interest on that debt, and had no outstanding medium term notes that were senior subordinated indebtedness. The indenture does not limit the amount of senior debt that we are permitted to have, and we may in the future incur additional senior debt.

## **Restrictive Covenants**

Neither indenture contains any significant financial or restrictive covenants, including covenants restricting either us or any of our subsidiaries from issuing, assuming or guaranteeing any indebtedness secured by a lien on any of our subsidiaries' property or capital stock, or restricting us or any of our subsidiaries from entering into sale and leasehold transactions. The prospectus supplement relating to a series of debt securities may describe restrictive covenants, if any, to which we may be bound under the applicable indenture.

## **Merger, Consolidation, Sale, Lease or Conveyance**

Unless otherwise indicated in the applicable prospectus supplement, as long as any debt securities are outstanding, we will not be permitted to merge or consolidate with any other entity and will not be permitted to sell, lease or convey all or substantially all of our assets to any person, unless:

we are the continuing corporation or our successor or the person that acquires or leases all or substantially all of our assets is a corporation, association, company, limited liability company, joint-stock company or business trust organized under the laws of the United States or one of the states of the United States or the District of Columbia and the successor entity expressly assumes all of our obligations under the applicable indenture and the related debt securities; and

immediately after any merger, consolidation, sale, lease or conveyance, we or our successor is not in default in the performance or observance of the covenants and conditions of the applicable indenture.

This covenant would not apply to a recapitalization transaction, a change of control of The Charles Schwab Corporation or a highly leveraged transaction unless the transaction or change of control is structured to include a merger or consolidation or a sale, lease or conveyance of all or substantially all of our assets. Except as may be described in the prospectus supplement applicable to a particular series of debt securities, there are no covenants or other provisions in the indentures requiring us to repurchase the debt securities or that would afford holders of debt securities additional protection or economic benefits in the event of a recapitalization or a change of control of The Charles Schwab Corporation or a highly leveraged transaction.

## **Events of Default**

Unless otherwise specified in the applicable prospectus supplement, an Event of Default will occur for any series of debt securities if:

we fail to pay when due any principal of that series of debt securities;

we fail to pay any interest on that series of debt securities within 30 days after the interest is due;

we fail to deposit when due any sinking fund payment required under the terms of that series of debt securities;

we fail to cure our default of any other covenant or agreement to which that series of debt securities is subject within 60 days after we receive written notice of the default;

specified events of bankruptcy, insolvency or reorganization occur; or

any other default or event of default provided with respect to debt securities of that series occurs.

## **Table of Contents**

If an Event of Default, other than a default relating to our bankruptcy, insolvency or reorganization, occurs and continues, the trustee or the holders of 25% of the aggregate principal amount of all affected series of debt securities, voting together as a single class, may require us to repay immediately the entire principal of the debt securities of all affected series and any accrued interest. For example, if an Event of Default relates to our failure to pay interest on two series of senior debt securities and we have issued ten series of outstanding senior debt securities, the holders of 25% of the two affected series, voting together as a single class, would have the right to require us to immediately repay the senior debt securities that are part of those two series. However, if the Event of Default were to affect all ten series, then 25% of all senior debt securities outstanding under the senior debt indenture, voting together as a single class, would have the right to require us to immediately repay all outstanding series of senior debt securities. If an Event of Default relating to our bankruptcy, insolvency or reorganization occurs, the entire principal of the affected debt securities will automatically become payable. Any payment by us on the subordinated debt securities following any acceleration will be subject to the subordination provisions applicable to the subordinated debt securities.

The holders of a majority of the aggregate principal amount of the debt securities of all affected series, voting together as a single class, can rescind any acceleration or waive any past default or Event of Default. However, they cannot waive certain defaults in payment of principal of, premium, if any, or interest on, any of the debt securities or any right of a holder to have a debt security converted into our common stock.

Other than its duties in case of a default, the trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders, unless the holders offer the trustee protection from expenses and liability reasonably satisfactory to it, called an indemnity. If they provide this indemnity, the holders of a majority in principal amount of all affected series of debt securities, voting together as a single class, may direct the time, method and place of conducting any proceeding or any remedy available to the trustee, or exercising any power conferred upon the trustee, for any series of debt securities.

A holder of a debt security may not institute any action against us under the indenture unless:

the holder gives the trustee written notice that a default has occurred and is continuing;

the holders of at least 25% of the outstanding aggregate principal amount of all affected series, voting together as a single class, request that the trustee institute the action while offering the trustee an indemnity reasonably satisfactory to it;

the holders offer the trustee reasonable security or indemnity against the costs and liabilities to be incurred in complying with the request; and

the trustee fails to institute the action within 60 days after receiving the request.

Even if these conditions are met, the holder may not institute an action if holders of a majority in aggregate principal amount of all affected series, voting together as a single class, direct the trustee to take action inconsistent with the request of the holder desiring to institute action against us. Holders may institute an action for payment of overdue principal or interest or to enforce their rights to convert securities into our other securities without complying with the preceding conditions.

We are required to file annually with the trustee a certificate stating whether we are in default under any of the provisions of either indenture, specifying any default that exists.

### **Discharge, Defeasance and Covenant Defeasance**

We may be discharged from our obligations on the debt securities of any series if we deposit enough money with the trustee to pay all the principal, interest and any premium due to the stated maturity date or redemption date of the debt securities.

## **Table of Contents**

Each indenture contains a provision that permits us to elect either or both of the following:

We may elect to be discharged from all of our obligations, subject to limited exceptions, with respect to any series of debt securities then outstanding. If we make this election, the holders of the debt securities of the series will not be entitled to the benefits of the indenture, except for the rights of holders to receive payments on debt securities or the registration of transfer and exchange of debt securities and replacement of lost, stolen or mutilated debt securities.

We may elect to be released from our obligations under some or all of any financial or restrictive covenants applicable to the series of debt securities to which the election relates and from the consequences of an event of default resulting from a breach of those covenants.

To make either of the above elections, we must deposit in trust with the trustee enough money to pay in full the principal, interest and premium on the debt securities. This amount may be made in cash and/or United States government obligations or, in the case of debt securities that are denominated in a currency other than United States dollars, cash in the currency in which the debt securities are denominated and/or foreign government obligations. As a condition to either of the above elections, we must deliver to the trustee an opinion of counsel that the holders of the debt securities will not recognize income, gain or loss for federal income tax purposes as a result of the action.

Foreign government obligations means, with respect to debt securities of any series that are denominated in a currency other than United States dollars:

direct obligations of the government that issued or caused to be issued the currency in which such securities are denominated and for the payment of which obligations its full faith and credit is pledged, or, with respect to debt securities of any series which are denominated in euros, direct obligations of certain members of the European Union for the payment of which obligations the full faith and credit of the members is pledged, which in each case are not callable or redeemable at the option of the issuer; or

obligations of a person controlled or supervised by or acting as an agency or instrumentality of that government the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by that government, which are not callable or redeemable at the option of the issuer.

## **Modification of the Indentures**

Without the consent of the holders of debt securities, we and the trustee may enter into supplemental indentures to:

document that a successor corporation has assumed our obligations;

add covenants or events of default for the protection of the holders of debt securities;

cure any ambiguity or correct any inconsistency in the indentures;

permit the facilitation of the defeasance and discharge of the securities;

establish the forms or terms of debt securities of any series;

provide for conversion rights;

provide for guarantees;

document the appointment of a successor trustee; or

other changes specified in the indenture.

## **Table of Contents**

If the holders of a majority in principal amount of all affected series, voting together as a single class, consent, we and the trustee may add to, change or eliminate any of the provisions of an indenture or modify in any way the rights of holders of the affected series. However, each affected holder must consent before we can:

extend the stated maturity of the principal;

reduce the amount of the principal;

reduce the rate or extend the time of payment of interest;

if subordinated debt securities, make any change relating to the subordination of the debt securities in a materially adverse manner;

reduce any premium payable on redemption;

change the currency in which any debt security is payable;

adversely affect the right to convert any debt security if the debt security is a convertible debt security; or

reduce the percentage in principal amount required to consent to any of the foregoing actions.

We may not amend the senior subordinated debt indenture to alter the subordination of any outstanding senior subordinated debt securities without the consent of each holder of senior indebtedness then outstanding that would be negatively affected.

## **Legal Ownership of Debt Securities**

We refer to those who have debt securities registered in their own names, on the books that we or the trustee maintain for this purpose, as holders of those debt securities. These persons are the legal holders of the debt securities. We refer to those who, indirectly through others, own beneficial interests in the debt securities that are not registered in their own name as indirect holders. As discussed under the heading Global Securities, indirect holders are not legal holders, and investors in debt securities issued in book-entry form or in street name will be indirect holders.

## **Additional Mechanics**

*Form, Exchange and Transfer.* Unless otherwise indicated in the prospectus supplement, the debt securities will be issued:

only in fully registered form;

without interest coupons; and

in denominations of \$1,000 and any integral multiple of \$1,000.

## Edgar Filing: SCHWAB CHARLES CORP - Form 424B5

You may have your debt securities broken into more debt securities of permitted smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed. This is called an exchange.

The entity performing the role of maintaining the list of registered direct holders is called the security registrar. It will also perform exchanges and transfers. You may exchange or transfer debt securities at the office of the security registrar.

You will not be required to pay a service charge to transfer or exchange debt securities, but you may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange will only be made if the security registrar is satisfied with your proof of ownership.

**Table of Contents**

In the event of any partial redemption of debt securities of any series, we will not be required to:

issue, register the transfer of, or exchange, any debt security of that series during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption and ending at the close of business on the day of the mailing; or

register the transfer of or exchange any debt security of that series selected for redemption, in whole or in part, except the unredeemed portion being redeemed in part.

Unless otherwise indicated in a prospectus supplement, the trustee will act as the securities registrar and we will appoint an office or agency in New York City for you to transfer or exchange debt securities having New York as the place of payment.

*Payment and Paying Agents.* We will pay interest, principal and any other money due on the debt securities at payment offices that we designate. These offices are called paying agents. You must make arrangements to have your payment picked up at that office. We may also choose to pay interest by mailing checks to the address specified in the security register.

We will pay interest to you if at the close of business on a particular day in advance of each due date for interest you are a direct holder, even if you no longer own the debt security on the interest due date. That particular day is called the regular record date and will be stated in the prospectus supplement. Holders buying and selling debt secur