SCHWAB CHARLES CORP
Form DEF 14A
March 28, 2008

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SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to Section 240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

The Charles Schwab Corporation

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(2) Aggregate number of securities to which transaction applies:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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THE CHARLES SCHWAB CORPORATION 2008 PROXY STATEMENT

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March 28, 2008

Dear Fellow Stockholders,

We cordially invite you to attend our 2008 Annual Meeting of Stockholders. The meeting will be held on Thursday, May 15, 2008, at 2:00 p.m., Pacific Time, at the Westin Hotel, 50 Third Street, San Francisco, California.

At the meeting we will:

- elect five directors for three-year terms,
- vote on two stockholder proposals, and
- consider any other business properly coming before the meeting.

We also will report on our corporate performance in 2007 and answer your questions.

We are pleased to offer you the convenience of viewing our annual meeting by webcast at *www.schwabevents.com*. If you prefer to attend the meeting in person, please follow the advance registration instructions as outlined in this proxy statement. We look forward to your participation.

Sincerely,

CHARLES R. SCHWAB

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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NOTICE OF 2008 ANNUAL MEETING OF STOCKHOLDERS

The 2008 Annual Meeting of Stockholders of The Charles Schwab Corporation will be held on Thursday, May 15, 2008, at 2:00 p.m., Pacific Time, at the Westin Hotel, 50 Third Street, San Francisco, California, to conduct the following items of business:

- elect five directors for three-year terms,
- vote on two stockholder proposals, and
- consider any other business properly coming before the meeting.

Stockholders who owned shares of our common stock at the close of business on March 17, 2008 are entitled to attend and vote at the meeting and any adjournment or postponement of the meeting. A complete list of registered stockholders will be available prior to the meeting at our principal executive offices at 120 Kearny Street, San Francisco, California 94108.

By Order of the Board of Directors,

CARRIE E. DWYER

EXECUTIVE VICE PRESIDENT,

GENERAL COUNSEL AND

CORPORATE SECRETARY

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PROPOSAL FOR WHICH WE REQUEST YOUR VOTE

This proxy statement describes the proposals on which you may vote as a stockholder of The Charles Schwab Corporation. We, the company s Board of Directors, are sending these proxy materials to you on or about March 28, 2008.

Stockholders who owned the company s common stock at the close of business on March 17, 2008 may attend and vote at the annual meeting. Each share is entitled to one vote. There were 1,146,948,645 shares of common stock outstanding on March 17, 2008.

PROPOSAL FOR WHICH WE REQUEST YOUR VOTE

We recommend that you vote ***for*** the election of five directors for three-year terms.

There are also two stockholder proposals that we recommend that you vote against. Those proposals are described in the section Stockholder Proposals.

ELECTION OF DIRECTORS

Nominees for directors this year are:

- Frank C. Herringer
- Stephen T. McLin
- Charles R. Schwab
- Roger O. Walther
- Robert N. Wilson

Each nominee is presently a director of the company and has consented to serve a three-year term. Biographical information about each of the nominees is contained in the following section.

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THE BOARD OF DIRECTORS

MEMBERS OF THE BOARD OF DIRECTORS

WILLIAM F. ALDINGER III

DIRECTOR SINCE 2005

Mr. Aldinger, age 60, is President and Chief Executive Officer of Capmark Financial Group Inc., a financial services company, and a member of its board of directors. Prior to joining Capmark, he was the Chairman and Chief Executive Officer of HSBC North America Inc., a financial services company, from 2003 until 2005. Mr. Aldinger also served as Chairman and Chief Executive Officer of Household International, Inc. (now HSBC Finance Corporation) from 1994 until 2005. Mr. Aldinger is a director of Illinois Tool Works, Inc., a developer and processor of engineered components, industrial systems and consumables; AT&T Inc., a voice, video and data communications company; and KKR Financial Corp., a specialty finance company. Mr. Aldinger s term expires in 2010.

NANCY H. BECHTLE

DIRECTOR SINCE 1992

Ms. Bechtle, age 70, served as President and Chief Executive Officer of the San Francisco Symphony from 1987 until 2001 and has served as a member of the San Francisco Symphony Board of Governors since 1984. She was a director and Chief Financial Officer of J.R. Bechtle & Co., an international consulting firm, from 1979 to 1998. Ms. Bechtle has served as Chairman and a director of Sugar Bowl Ski Corporation since 1998. She was appointed a director of the Presidio Trust in January 2008. She also served as a director of the National Park Foundation from 2002 until January 2008 and was its Vice Chairman from 2005 until 2008. Ms. Bechtle s term expires in 2009.

C. PRESTON BUTCHER

DIRECTOR SINCE 1988

Mr. Butcher, age 69, has been Chairman and Chief Executive Officer of Legacy Partners (formerly Lincoln Property Company N.C., Inc.), a real estate development and management firm, since 1998. Mr. Butcher served as President, Chief Executive Officer and Regional Partner of Lincoln Property Company N.C., Inc. from 1967 until 1998. He is a director of Northstar Realty Finance Corp. Mr. Butcher s term expires in 2009.

DONALD G. FISHER

DIRECTOR SINCE 1988

Mr. Fisher, age 79, is the founder of Gap Inc., an international specialty retail clothing chain. He is Chairman Emeritus and a director of Gap Inc. He also was Chief Executive Officer of Gap Inc. from 1969 to 1995. Mr. Fisher is a member of the California State Board of Education. His term expires in 2010.

FRANK C. HERRINGER

DIRECTOR SINCE 1996

Mr. Herringer, age 65, has been Chairman of the Board of Transamerica Corporation, a financial services company, since 1996. He served as Chief Executive Officer of Transamerica from 1991 to 1999 and President from 1986 to 1999, when Transamerica was acquired by AEGON N.V. From the date of the acquisition until 2000, Mr. Herringer served on the Executive Board of AEGON N.V. and as Chairman of the Board of AEGON USA, Inc. Mr. Herringer is also a director of AEGON U.S. Corporation, the holding company for AEGON N.V. s operations in the United States; Amgen Inc., a biotechnology company; Safeway, Inc., a food and drug retailer; Mirapoint, Inc., an Internet message infrastructure equipment developer; and Cardax Pharmaceuticals, a biotechnology company. Mr. Herringer is a nominee for election this year.

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THE BOARD OF DIRECTORS

MARJORIE MAGNER

DIRECTOR SINCE 2006

Ms. Magner, age 58, is a founding partner of Brysam Global Partners, a private equity firm. She served as Chairman and Chief Executive Officer of the Global Consumer Group for Citigroup, Inc., a financial services company, from 2003 until 2005. Ms. Magner joined Commercial Credit, a predecessor company to Citigroup, in 1987. She served as Chief Administrative Officer and Senior Executive Vice President, Global Consumer Group from 2000 until 2002, and Chief Operating Officer, Global Consumer Group from 2002 until 2003. Ms. Magner is a director of Gannett Company, Inc., a publishing company, and Accenture Ltd, a management consulting and technology services company. She also serves as Chairman of the Brooklyn College Foundation Board of Trustees and is a member of the Dean s Advisory Council of the Krannert School of Management at Purdue University. Ms. Magner s term expires in 2009.

STEPHEN T. MCLIN

DIRECTOR SINCE 1988

Mr. McLin, age 61, has been Chairman and Chief Executive Officer of STM Holdings LLC, which offers merger and acquisition advice, since 1998. From 1987 until 1998, he was President and Chief Executive Officer of America First Financial Corporation, a finance and investment banking firm, and parent of EurekaBank. Before that, he was an Executive Vice President of Bank of America. Mr. McLin is an advisory director of Headwaters MB, a merchant bank, and Financial Technology Ventures, a private equity fund. Mr. McLin is a nominee for election this year.

CHARLES R. SCHWAB

DIRECTOR SINCE 1986

Mr. Schwab, age 70, has been Chairman and a director of The Charles Schwab Corporation since its incorporation in 1986. Mr. Schwab was re-appointed as Chief Executive Officer of the company in 2004. He served as Co-Chief Executive Officer of the company from 1998 to 2003, and Chief Executive Officer of the company from 1986 to 1997. Mr. Schwab was a founder of Charles Schwab & Co., Inc. in 1971, has been its Chairman since 1978, and its Chief Executive Officer since 2004. Mr. Schwab is Chairman of Charles Schwab Bank and Chairman and trustee of The Charles Schwab Family of Funds, Schwab Investments, Schwab Capital Trust and Schwab Annuity Portfolios, all registered investment companies. Mr. Schwab is a nominee for election this year.

PAULA A. SNEED

DIRECTOR SINCE 2002

Ms. Sneed, age 60, served as Executive Vice President, Global Marketing Resources and Initiatives, of Kraft Foods, Inc., a global food and beverage company from 2005 until her retirement in 2006; Senior Vice President, Global Marketing Resources and Initiatives from 2004 to 2005; and Group Vice President and President of E-Commerce and Marketing Services for Kraft Foods North America, part of Kraft Foods, Inc., from 2000 until 2004. She joined General Foods Corporation (which later merged with Kraft Foods) in 1977 and held a variety of management positions. Ms. Sneed is a director of Airgas, Inc., a national distributor of industrial, medical and specialty gases and related equipment, and Tyco Electronics, a manufacturer of engineered electronic components, network solutions, wireless systems and telecommunications systems. Ms. Sneed s term expires in 2010.

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THE BOARD OF DIRECTORS

ROGER O. WALTHER

DIRECTOR SINCE 1989

Mr. Walther, age 72, has served as Chairman and Chief Executive Officer of Tusker Corporation, a real estate and business management company, since 1997. He served as Chairman and Chief Executive Officer of ELS Educational Services, Inc., a provider in the United States and internationally of courses in English as a second language, between 1992 and 1997. Mr. Walther was President, Chief Executive Officer and a director of AIFS, Inc., which designs and markets educational and cultural programs internationally, from 1964 to 1993. Mr. Walther served as Chairman and a director of First Republic Bank from 1985 until November 2007. Mr. Walther is a nominee for election this year.

ROBERT N. WILSON

DIRECTOR SINCE 2003

Mr. Wilson, age 67, is Chairman of Still River Systems, a medical device company. Mr. Wilson was Chairman of Caxton Health Holdings, LLC, a healthcare-focused investment firm, from 2004 through 2007, and was Vice Chairman of the board of directors of Johnson & Johnson, a manufacturer of health care products, from 1989 until 2003. Mr. Wilson joined Johnson & Johnson in 1964. Mr. Wilson is also a director of Hess Corporation, an integrated oil and gas company, and Synta Pharmaceuticals Corporation, a bio-pharmaceutical company. Mr. Wilson is a nominee for election this year.

NUMBER OF DIRECTORS AND TERMS

The authorized number of directors is currently eleven and the company has eleven directors. Five directors are nominees for election this year and six directors will continue to serve the terms described in their biographies.

Our directors currently serve staggered terms. Each director who is elected at an annual meeting of stockholders serves a three-year term, and the directors are divided into three classes.

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THE BOARD OF DIRECTORS

BOARD AND COMMITTEE MEETINGS

The board held seven regular meetings and two special meetings in 2007. Each director attended at least 75% of all board and applicable committee meetings during 2007. Non-management directors meet regularly in executive session. The chairman of the Nominating and Corporate Governance Committee presides over the executive sessions of non-management directors. As provided in our Corporate Governance Guidelines, we expect directors to attend the annual meeting of stockholders. In 2007, eleven directors attended the annual meeting.

This table describes the board s standing committees.

NAME OF COMMITTEE AND MEMBERS [1]	FUNCTIONS OF THE COMMITTEE	NUMBER OF MEETINGS IN 2007
AUDIT Stephen T. McLin, Chairman [2] William F. Aldinger III [2] C. Preston Butcher Donald G. Fisher Marjorie Magner	• reviews and discusses with management and the independent auditors the company s annual and quarterly financial statements and the integrity of the financial reporting process • reviews the qualifications and independence of the independent auditors and performance of the company s internal and independent auditors • reviews reports from management regarding major risk exposures and steps management has taken to address such exposures • reviews compliance with legal and regulatory requirements	9

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THE BOARD OF DIRECTORS

NAME OF COMMITTEE AND MEMBERS [1]	FUNCTIONS OF THE COMMITTEE	NUMBER OF MEETINGS IN 2007
COMPENSATION Roger O. Walther, Chairman Nancy H. Bechtle Frank C. Herringer Paula A. Sneed Robert N. Wilson	• annually reviews and approves corporate goals and objectives relating to compensation of executive officers and other senior officers • evaluates the performance of executive officers and other senior officers and determines their compensation levels • reviews and approves compensatory arrangements for executive officers and other senior officers • approves long-term awards for executive officers and other senior officers	9
NOMINATING AND CORPORATE GOVERNANCE Frank C. Herringer, Chairman William F. Aldinger III Nancy H. Bechtle C. Preston Butcher Donald G. Fisher Marjorie Magner Stephen T. McLin Paula A. Sneed Roger O. Walther Robert N. Wilson	• identifies and evaluates individuals qualified to serve on the board • recommends nominees to fill vacancies on the board and each board committee and recommends a slate of nominees for election or re-election as directors by the stockholders • makes recommendations regarding succession planning for the Chief Executive Officer and executive management • assesses the performance of the board and its committees and recommends corporate governance principles for adoption by the board	2

(1) In addition to the standing committees, we may from time to time establish *ad hoc* committees to assist in various matters.

(2) We have determined that Mr. McLin and Mr. Aldinger are Audit Committee financial experts and independent under the Nasdaq Stock Market corporate governance rules and the rules of the U.S. Securities and Exchange Commission.

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THE BOARD OF DIRECTORS

DIRECTOR INDEPENDENCE

We have considered the independence of each member of the board in accordance with the Nasdaq Stock Market corporate governance rules. We have determined that the following directors are independent: William F. Aldinger III, Nancy H. Bechtle, C. Preston Butcher, Donald G. Fisher, Frank C. Herringer, Marjorie Magner, Stephen T. McLin, Paula A. Sneed, Roger O. Walther, and Robert N. Wilson. All of the members of the Audit, Compensation and Nominating and Corporate Governance Committees are independent as determined in accordance with the listing standards of the Nasdaq Stock Market.

In determining independence, the Board of Directors considers broadly all relevant facts and circumstances regarding a director s relationships with the company. All non-employee directors receive compensation from the company for their service as a director, as disclosed in the section Compensation Information Director Compensation, and are entitled to receive reimbursement for their expenses in traveling to and participating in board meetings. As disclosed in the Transactions with Related Persons section of this proxy statement, some directors and entities with which they are affiliated have credit transactions with the company s banking and brokerage subsidiaries, such as mortgage loans, revolving lines of credit, or other extensions of credit. These transactions with directors and their affiliates are made in the ordinary course of business and to the extent permitted by the Sarbanes-Oxley Act of 2002. Such transactions are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not related to the lender and do not involve more than the normal risk of collectibility or present other unfavorable features.

In addition to the relationships outlined above, the board considered the following types of relationships for the following directors:

DIRECTOR	CATEGORY/NATURE OF RELATIONSHIP
William F. Aldinger III	The director serves as a director of another company that provided telecommunications services to the company in the ordinary course of business through usual trade terms or competitive bids.
Donald G. Fisher	The director serves as a director of a nonprofit organization to which the company, its affiliates or its charitable foundation have made donations.
Marjorie Magner	The director serves as a director of another company that provided professional services to the company in the ordinary course of business through usual trade terms or competitive bids.
Stephen T. McLin	The director s son is employed by the company in a non-executive officer, non-managerial capacity.

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THE BOARD OF DIRECTORS

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Compensation Committee is or has been an officer or employee of the company or any of its subsidiaries. There were no Compensation Committee interlocks as defined under Securities and Exchange Commission rules during 2007.

DIRECTOR NOMINATIONS

The Nominating and Corporate Governance Committee is composed entirely of independent directors as determined by the Board of Directors in accordance with the Nasdaq Stock Market listing standards.

The Board of Directors has adopted a written Nominating and Corporate Governance Committee charter. The charter is available on our website at *www.aboutschwab.com/governance*. One of the committee s responsibilities is to recommend candidates for nomination to the board.

The Nominating and Corporate Governance Committee recommended all of the nominees for election included in this year s proxy statement. All nominees have been previously elected by stockholders as directors.

The Nominating and Corporate Governance Committee has a policy to consider candidates recommended by stockholders. The policy provides that stockholder recommendations must be in writing and include the following information: (i) the name, address and contact information of the recommending stockholder; (ii) proof of the stockholder s share ownership; (iii) a resume or statement of the candidate s qualifications; and (iv) a statement of the stockholder s relationship with the proposed candidate or interest in the proposed candidacy. The written recommendation must be addressed to the Assistant Corporate Secretary at the address provided in the Corporate Governance Information section of this proxy statement.

Director Qualifications

The qualifications for directors are described in our Corporate Governance Guidelines, which are available on the company s website. In addition, the committee believes that the following specific, minimum qualifications must be met by a nominee for the position of director:

- the ability to work together with other directors, with full and open discussion and debate as an effective group,

- current knowledge and experience in the company s business or operations, or contacts in the community in which the company does business and in the industries relevant to the company s business, or substantial business, financial or industry-related experience, and
- the willingness and ability to devote adequate time to the company s business.

The committee also considers the following qualities and skills when making its determination whether a nominee is qualified for the position of director:

- relationships that may affect the independence of the director or conflicts of interest that may affect the director s ability to discharge his or her duties,
- diversity of experience and background, including the need for financial, business, academic, public sector and other expertise on the board or board committees, and
- the fit of the individual s skills and experience with those of the other directors and potential directors in comparison to the needs of the company.

When evaluating a candidate for nomination, the committee does not assign specific weight to any of these factors or believe that all of the criteria necessarily apply to every candidate.

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THE BOARD OF DIRECTORS

Identifying and Evaluating Candidates for Director

The Nominating and Corporate Governance Committee reviews the appropriate skills and characteristics required of board members in the context of the current composition of the board. Candidates considered for nomination to the Board of Directors may come from several sources, including current and former directors, professional search firms and stockholder recommendations. Nominees for director are evaluated, in consultation with the company s Chairman, by the committee, which may retain the services of a professional search firm to assist it in identifying or evaluating potential candidates.

COMMUNICATIONS WITH THE BOARD OF DIRECTORS

If you wish to communicate with the board, the chairman of the Nominating and Corporate Governance Committee, or with the independent directors as a group, you may send your communication in writing to the Assistant Corporate Secretary at the address provided in the Corporate Governance Information section of this proxy statement. You must include your name and address in the written communication and indicate whether you are a stockholder of the company.

The Assistant Corporate Secretary will compile all communications, summarize lengthy, repetitive or duplicative communications and forward them to the appropriate director or directors. The Assistant Corporate Secretary will not forward non-substantive communications or communications that pertain to personal grievances, but instead will forward them to the appropriate department within the company for resolution. If this is the case, the Assistant Corporate Secretary will retain a copy of such communication for review by any director upon his or her request.

CORPORATE GOVERNANCE INFORMATION

You may find our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters for the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee on the company s website at *www.aboutschwab.com/governance*. You also may obtain a paper copy of these items, without charge, from:

Assistant Corporate Secretary

The Charles Schwab Corporation

Mailstop SF120KNY-04

101 Montgomery Street

San Francisco, California 94104

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AUDIT INFORMATION

AUDIT COMMITTEE REPORT

The Audit Committee is composed entirely of independent directors as determined by the Board of Directors in accordance with the listing standards of the Nasdaq Stock Market. None of the directors on this committee is or has been an employee of The Charles Schwab Corporation or any of its subsidiaries. None of the committee members simultaneously serves on the audit committees of more than three public companies, including ours. All of the members of our committee are able to read and understand fundamental financial statements, including the company s balance sheet, income statement, and cash flow statement. The board has determined that William F. Aldinger III and Stephen T. McLin are Audit Committee financial experts.

The Board of Directors has adopted a written Audit Committee charter. The charter is available on our website at *www.aboutschwab.com/governance*.

The committee has met and held discussions with management and the company s independent registered public accounting firm. As part of this process, the committee has:

- reviewed and discussed the audited financial statements with management,
- discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (*Communication with Audit Committees*), and
- received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1 (*Independence Discussions with Audit Committees*), and discussed with the independent registered public accounting firm its independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the company s Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for filing with the SEC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Stephen T. McLin, Chairman

William F. Aldinger III

C. Preston Butcher

Donald G. Fisher

Marjorie Magner

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AUDIT INFORMATION

AUDITOR SELECTION AND FEES

Auditor Selection

The Audit Committee has selected Deloitte & Touche LLP and the member firms of Deloitte Touche Tohmatsu (collectively referred to as Deloitte) as the company s independent registered public accounting firm for the 2008 fiscal year. Deloitte has served in this capacity since the company s inception. We expect representatives of Deloitte to attend the annual meeting of stockholders, where they will respond to appropriate questions from stockholders and have the opportunity to make a statement.

Audit Fees

The aggregate fees for professional services billed by Deloitte in connection with their audits of the consolidated annual financial statements and management s assessment of the effectiveness of internal control over financial reporting, and reviews of the consolidated financial statements included in quarterly reports on Form 10-Q were:

Fiscal year ended December 31:		
2007	$	4.6 million
2006	$	5.8 million

Audit-Related Fees

Audit-Related fees include assurance and related services, such as reports on internal controls, review of Securities and Exchange Commission filings, merger and acquisition due diligence and related services. The aggregate fees billed by Deloitte for such services were:

Fiscal year ended December 31:		
2007	$	1.3 million
2006	$	1.7 million

Tax Fees

The Audit Committee has limited tax services by Deloitte to tax return review, preparation and compliance. The aggregate fees billed by Deloitte for these services were:

Fiscal year ended December 31:		
2007	$	0.1 million
2006	$	0.1 million

All Other Fees

All other services represent fees not included in audit fees, audit-related fees, and tax fees. The aggregate fees billed by Deloitte for these services were:

Fiscal year ended December 31:	
2007	None
2006	None

In addition to the services listed above, Deloitte provides audit services to certain unconsolidated affiliated mutual funds and foundations. The fees for such audit services are included in the expenses of the mutual funds and foundations and borne by the stockholders of the mutual funds and foundations. Amounts billed by Deloitte for these services were $0.2 million and $2.0 million in 2007 and 2006, respectively. These amounts are not included in the expenses of The Charles Schwab Corporation.

Non-Audit Services Policies and Procedures

The Audit Committee has adopted a policy regarding non-audit services performed by Deloitte. The Audit Committee s policy prohibits engaging Deloitte to perform the following services:

- any contingent fee arrangement,
- bookkeeping or other services relating to accounting records or financial statements,
- broker-dealer services,
- actuarial services,
- management and human resource functions, including executive search services,

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AUDIT INFORMATION

- legal services and expert services unrelated to the audit,
- appraisal and valuation services, fairness opinions or contribution-in-kind reports,
- internal audit outsourcing,
- financial information systems design and implementation,
- tax consulting or advice or a tax opinion on an aggressive tax position or on a listed transaction or a confidential transaction as defined by U.S. Department of Treasury regulations, and
- tax services to employees who have a financial reporting oversight role.

The policy requires the pre-approval of the Audit Committee for other non-audit services performed by Deloitte. The policy divides non-audit services into three separate categories, which the Audit Committee has pre-approved subject to an annual aggregate dollar limit for each category. Once the dollar limit in each of these three categories is reached, the Audit Committee will decide whether to establish an additional spending limit for the category or specifically pre-approve each additional service in the category for the remainder of the year. The three categories are:

- accounting theory consultation (includes services such as guidance on the application of Generally Accepted Accounting Principles to various transactions and guidance on the effects of new accounting pronouncements),
- assurance and due diligence (includes services such as certain reports on internal controls, review of Securities and Exchange Commission filings, merger and acquisition due diligence, employee benefit plan audits, and foreign statutory audits and regulatory reports), and
- tax return review, preparation and compliance.

Services not subject to pre-approval limits in one of the three categories above require specific pre-approval from the Audit Committee. Fees related to services requiring specific pre-approval are limited, on an annual basis, to 50% of the combination of audit fees, audit-related fees and tax fees.

The policy permits the Audit Committee to delegate pre-approval authority to one or more members of the Audit Committee, provided that the member or members report to the entire Audit Committee pre-approval actions taken since the last Audit Committee meeting. The policy expressly prohibits delegation of pre-approval authority to management.

In fiscal years 2006 and 2007, the Audit Committee pre-approved 100% of the services performed by Deloitte relating to audit-related fees and tax fees.

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COMPENSATION INFORMATION

COMPENSATION DISCUSSION AND ANALYSIS

COMPENSATION PHILOSOPHY AND OBJECTIVES

As approved by the Compensation Committee, the company s executive compensation programs are designed to:

- attract, motivate and retain key executive officers who are critical to the company s long-term success,
- align the compensation opportunities of executive officers with the long-term interests of the company and its stockholders, and
- link executive pay with performance.

These objectives are achieved primarily through a combination of base salary, annual cash incentive and long-term incentive awards. The Compensation Committee believes that paying competitive executive compensation is critical to attracting, motivating and retaining key executives. Accordingly, in setting compensation, the Compensation Committee reviews competitive compensation data for the peer group companies, including data for base salary, annual cash and long-term incentive compensation.

The Compensation Committee views annual cash incentives and long-term incentives as important tools not only for attracting, retaining and motivating employees, but also for aligning executive officer and stockholder interests. The Compensation Committee ties annual cash incentives and long-term incentives to performance criteria based on revenue growth and profit margin to focus executive officers on making disciplined investments that will lead to sustained profitability, and ultimately drive stockholder returns. Specifically, executive officers only receive annual cash incentive bonuses and vesting on their performance-based restricted stock when the company achieves the associated performance goals for revenue growth and profit margin. In addition, executive officers only realize gain from their premium-priced options when the stock price rises above a premium threshold, ensuring a minimum level of stockholder return before executive officers benefit.

The Compensation Committee also sets executive compensation to link pay with individual performance and the company s financial performance. The Compensation Committee considers individual performance based on performance evaluations, job responsibilities and roles within the company as factors in determining base salary, individual cash incentive targets and long-term incentive awards. The Compensation Committee has structured annual cash and long-term incentives to reward sustained financial performance that results in stock price increases, and so that executive officers compensation opportunity increases with the company s financial performance.

COMPENSATION PROCESS

Role of the Compensation Committee and Management

The Compensation Committee reviews and approves compensation for the Chairman and Chief Executive Officer, executive officers, other senior officers and directors. The Compensation Committee oversees compensation programs for these officers to ensure consistency with the compensation objectives it sets. For these officers, the Compensation Committee:

- reviews and approves corporate goals and objectives relating to compensation,
- evaluates performance in light of those goals and objectives, and
- determines compensation levels based on performance evaluations.

The Compensation Committee, as a committee or together with the other independent directors, evaluates the performance and determines the compensation of the Chairman and Chief Executive Officer. The Compensation Committee also considers recommendations from the Chairman and Chief

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COMPENSATION INFORMATION

Executive Officer regarding compensation for the other executive officers and performance criteria for annual and long-term incentives. These recommendations are developed in consultation with the President and Chief Operating Officer, the Executive Vice President Human Resources, and with respect to performance criteria for annual and long-term incentives, the Chief Financial Officer. While the Compensation Committee considers these recommendations, it does not delegate authority to management for compensation decisions.

Role of Compensation Consultants

The Compensation Committee has sole authority to retain compensation consultants to advise the committee and sole authority to approve fees and other terms related to their retention. The Compensation Committee directly engages Hewitt Associates to provide consulting services for executive compensation decisions. In 2007, the Compensation Committee directed Hewitt Associates to provide competitive pay assessments for the Chairman and Chief Executive Officer and all executive vice presidents, an analysis of the peer group used for compensation benchmarking, and advice and counsel regarding management recommendations, market trends and technical developments throughout the year. Hewitt Associates did not provide the company with any other ongoing consulting or administrative services in 2007.

Process for Determining Compensation

When setting executive compensation, the Compensation Committee reviewed pay history information, base salary, annual cash and long-term incentive data and competitive data. It also considered the executive s experience, role, past and expected future performance, and pay relative to internal peers in making individual compensation decisions. To give the committee a guideline to compare the competitiveness of compensation, Hewitt Associates prepared competitive pay assessments. The Compensation Committee did not use a formula or weighting to the factors considered in setting compensation. The Compensation Committee awards a significant amount of total compensation in annual and long-term incentive compensation, but it does not target a specific percentage mix between cash compensation and long-term equity, nor does it target any specific percentage of total compensation for each compensation component.

The Compensation Committee also reviewed a report of total 2006 compensation and projected 2007 compensation prepared by the company s Human Resources Department. This report showed dollar values for base salary, annual incentive awards, perquisite allowances, relocation benefits, restricted stock dividends, miscellaneous items reported as all other compensation, and long-term incentive awards of equity (including both vested and unvested awards).

When appropriate, the Compensation Committee reviewed and approved individual contracts and the other components of the compensation program, including retirement benefits, perquisites, termination and change-in-control benefits, and other plans.

Selection of Peer Group and Benchmarking

The Compensation Committee reviews competitive information based on ranking among named executive officers, and when available, on individual role or title (e.g., the Chairman and Chief Executive Officer, Chief Financial Officer and Chief Operating Officer). The Compensation Committee also reviews benchmark data for executive officers as a group. In 2007, the Compensation Committee used this information as a reference point to assess the competitiveness of compensation, rather than as a specific factor in setting individual compensation.

In 2007, the peer group for compensation benchmarking was:

- AG Edwards, Inc.
- TD Ameritrade Holding Co.
- Bear Stearns Companies
- Capital One Financial Corp.

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- E*Trade
- Fidelity Investments
- Franklin Resources Inc.
- Janus Capital Group Inc.
- Legg Mason Inc.
- Lehman Brothers Holdings Inc.
- MBNA Corp.
- Mellon Financial Corp.
- Northern Trust Corp.
- State Street Corp.
- T. Rowe Price Group, Inc.
- Toronto-Dominion Bank
- U.S. Bancorp

The Compensation Committee also used the McLagan Partners *Investment Management Survey* when reviewing executive compensation for officers of U.S. Trust because the peer group above is not directly applicable to U.S. Trust s wealth management business.

The peer group above was established in 2004 taking into account industry (financial services), size, performance, leadership status in the industry, and the extent to which each company may compete with the company for executive talent. In 2007, the Compensation Committee directed Hewitt Associates to prepare a comprehensive analysis of the peer group and recommend changes. This analysis included a review of quantitative factors including revenue, market capitalization and number of employees and qualitative factors including business model, geographical coverage, and competition for business and for employees. Based on this analysis, the Compensation Committee approved a new peer group in December 2007, adding Ameriprise Financial Inc., Comerica Inc., Fifth Third Bancorp, KeyCorp and Raymond James Financial Corp, and removing Bear Stearns Companies, Capital One Financial Corp., Lehman Brothers Holdings Inc., MBNA Corp., Mellon Financial Corp., Toronto-Dominion Bank, and U.S. Bancorp. The Compensation Committee used this revised peer group to benchmark compensation after December 2007.

COMPONENTS OF COMPENSATION

Base Salary

Base salary provides executive officers with a minimum level of income. The Compensation Committee annually reviews executive officers base salaries and makes appropriate adjustments based on the executive s experience, role, past and expected future performance, and pay relative to internal peers. The company uses the market median of the peer group as its benchmark reference for base salaries.

Annual Cash Incentives

The annual cash incentive awards of the Chairman and Chief Executive Officer and the named executive officers, who are executive vice presidents when performance targets are set, are made pursuant to the Corporate Executive Bonus Plan. Payouts under this plan are based on company and business unit performance relative to financial goals and target awards established by the Compensation Committee for each executive officer. In the first quarter of the year, the Compensation Committee sets matrices with financial performance goals and a target award for each executive officer, expressed as a percentage of base salary. The target award is based on the executive officer s role and pay relative to internal peers. In 2007, award payouts could range from 0% to 200% of the target award.

Executive officers promoted after the performance criteria and target awards are set in the first 90 days of the year are not eligible to receive an award under the annual plan cycle. In that case, promoted officers may receive a bonus outside the plan.

Long-Term Incentives

Annually the Compensation Committee reviews the long-term incentive strategy to determine the

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appropriate mix between cash and equity and between various types of equity awards. Individual grants are determined based on the executive s role, past and expected future performance, and pay relative to internal peers. The long-term incentives are the primary vehicle for long-term capital accumulation, including retirement.

Cash

In 2004 and 2005, the company designated a portion of its long-term incentives as cash awards to executive officers under the Long Term Incentive Plan. With respect to the 2004 grant, the Compensation Committee selected a performance criterion of cumulative earnings per share and a performance period beginning July 1, 2004 and ending December 31, 2007. These awards were designed to reinforce the company s philosophy of placing a significant amount of officer pay at risk and aligning pay with company performance as measured by financial results and stock price appreciation. The Compensation Committee approved a performance schedule for these awards under which the amount earned over the performance period could range from $0.50 per unit based on cumulative earnings per share of at least $1.25, up to a maximum of $4.00 per unit based on cumulative earnings per share equal to or greater than $2.70.

Equity

The Compensation Committee awards a significant amount of total compensation in long-term equity awards, although it does not apply a specific weighting or formula to the allocation. The mix of equity awards is based on a risk/reward analysis for the role of each named executive officer, so that executives with greater responsibility for business results have more pay at risk. Accordingly, some named executive officers receive all of their awards in options, which have value only to the extent that the company s stock price increases above the exercise price, and therefore entail greater risk than restricted stock. The Compensation Committee generally uses time-vested options and restricted stock for promotional grants, and premium-priced options and performance-based restricted stock for annual long-term incentives to executive officers to ensure that executive officers only benefit after strategic financial performance goals are achieved and stockholders have realized a gain. The long-term equity awards are granted pursuant to the 2004 Stock Incentive Plan that was approved by stockholders.

The Compensation Committee reviewed retirement provisions for equity awards for companies in the peer group and surveys on equity practices and changed the definition of retirement for all equity awards granted on or after October 18, 2007 to age 55 with 10 years of service, from the prior definition of age 50 with 7 years of service. Upon retirement as defined above, options granted more than two years prior to the retirement date receive accelerated vesting and a post-termination exercise period of up to two years. In addition, the Compensation Committee determined that performance-based restricted stock granted more than two years prior to retirement would not receive accelerated vesting but rather would continue to vest as scheduled, to avoid providing retirees with an advantage over continuing employees.

Equity Granting Policy

The company has no program, plan or practice to time the grant of stock-based awards relative to the release of material non-public information or other corporate events. All equity grants to directors and executive officers are approved by the Compensation Committee or the independent directors at regularly scheduled meetings or, in limited cases involving key recruits or promotions, by a special meeting or unanimous written consent. If an equity award is made at a meeting, the grant date is the meeting date or a fixed, future date specified at the time of the grant. If an equity award is approved by unanimous written consent, the grant date is a fixed, future date on or after the date the consent is effective under applicable corporate law. Under the terms of the company s stock incentive plan, the exercise

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price of options cannot be less than the closing price of company stock on the date of grant. In the event of securities law violations, the Compensation Committee reserves the right to reduce or cause the executive to forfeit equity awards and to require disgorgement of any profit realized from equity awards.

Stock Ownership Guidelines

The Board of Directors adopted stock ownership guidelines in 2004 to promote significant equity ownership in the company and align executive officers interests with stockholders. Under the stock ownership guidelines, the Chairman and Chief Executive Officer is expected to maintain an investment position in company stock equal to at least $5 million. All other executive officers on the Management Committee are expected to maintain an investment position in company stock equal to at least $1.5 million. Shares owned directly, shares beneficially owned under company benefit plans, restricted stock units, deferred stock units, and restricted stock are included in determining ownership levels. These ownership levels should be attained within five to seven years after the later of (i) establishment of the guidelines or (ii) the date the officer becomes an executive officer. Each executive officer also is expected to hold for a minimum of one year at least 50% of the net after-tax value of company stock acquired through the exercise of options or the vesting of restricted shares. While the guidelines do not contain mandatory enforcement provisions, the Board of Directors expects that executive officers will comply with the ownership guidelines.

Perquisites

The Compensation Committee approves perquisites for the Chairman and Chief Executive Officer, the executive officers, and other senior officers of the company. While the Compensation Committee does not believe that perquisites are or should be a significant portion of compensation, the Compensation Committee recognizes that perquisites may help attract and retain key executive officers.

In January 2005, the company replaced its car and parking allowance, financial planning reimbursement and executive medical benefit with a perquisite allowance to give officers flexibility in determining how to spend their perquisite dollars and to reduce administrative costs. The company reviewed the annual average cost of providing those programs and determined the appropriate amount for the annual perquisite allowance for executive vice presidents to be $36,000. The allowance is not a reimbursement for perquisites. Instead, executive officers receive cash payments of $36,000 annually (paid semi-monthly) in lieu of in-kind perquisites. They are not required to spend the cash payments or report on how the amounts are used.

The Chairman and Chief Executive Officer does not receive a perquisite allowance. As of January 1, 2008, the President and Chief Operating Officer also does not receive a perquisite allowance.

The company may from time to time incur other costs that result in a personal benefit to an executive officer. For example, the Compensation Committee has determined that it is appropriate for the company to permit spouses to accompany executive officers to certain business functions with the approval of the company s Chief Financial Officer. The costs of these travel-related expenses are treated as income to the executive officer and may be grossed up for tax purposes.

Termination and Change-in-Control Arrangements

All employees, including executive officers other than Mr. Schwab, are eligible to receive severance benefits under the company s Severance Pay Plan, which is described in the narrative following the Termination and Change in Control Table. Benefits are available under this plan only in the event of termination of employment on account of job elimination. To receive the severance payments and accelerated vesting of long-term awards, an employee must execute a severance agreement that contains, among other provisions, a general release and

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waiver of all claims. In cases not covered by the Severance Pay Plan, the Compensation Committee may consider severance arrangements for executive officers on a case by case basis.

Severance benefits may be provided pursuant to employment agreements. For example, Mr. Schwab is eligible for severance benefits under his employment agreement described in the narrative to the Summary Compensation Table. In addition, Mr. Scaturro was entitled to receive certain benefits under his offer letter. These arrangements are described in the narrative to the Summary Compensation Table.

The company does not maintain any other severance or change in control plans for executive officers. The Compensation Committee, however, considers the avoidance of loss and distraction of employees as a result of an actual or contemplated change in control to be essential to protecting and enhancing stockholder value. Accordingly, all employees, including executive officers, may be entitled to full vesting of their stock-based incentives and cash incentives (under the Long Term Incentive Plan) in the event of a change in control of The Charles Schwab Corporation.

Other Components

In addition to the components of executive compensation discussed above, executive officers may participate in programs available to all employees, including the 401(k) plan and an employee stock purchase program, which allows employees to purchase shares at a 15% discount to increase their ownership of company stock. The company also offers a deferred compensation program to officers and other key employees. The Compensation Committee does not consider these programs when setting executive compensation.

When setting the components of compensation, the Compensation Committee does not consider deferred compensation and past equity awards because doing so would be inconsistent with the pay-for-performance philosophy. The Compensation Committee views the deferred compensation program, which is described in the narrative to the Nonqualified Deferred Compensation table, as a savings vehicle with account balances that are a function of personal investment choices and market-based earnings. With respect to past equity awards, the Compensation Committee recognizes the benefit of appreciation from previously granted unvested equity awards from a retention perspective, but does not consider appreciation of prior awards in setting compensation.

2007 COMPENSATION

Base Salary

In 2007, after reviewing each named executive officer s experience, role, past and expected future performance, and pay relative to internal peers, the Compensation Committee increased base salary for Ms. Dwyer, $10,000; Mr. Goldman, $16,000; and Ms. McWhinney, $25,000. It also raised base salary in recognition of promotions: Mr. Bettinger from $600,000 to $700,000 upon his promotion to President and Chief Operating Officer, Mr. Martinetto from $339,000 to $410,000 upon his promotion to Chief Financial Officer, and Mr. Goldman from $416,000 to $450,000 upon his promotion to Executive Vice President- Schwab Institutional. The Compensation Committee recommended an increase in base salary for Mr. Schwab, which he declined. The competitive pay assessment completed by Hewitt Associates generally found that base salary was above the median of the peer group for the named executive officers. The Compensation Committee s objective is to have base salaries of executive officers approximate the median base salaries of peer companies over time. The Compensation Committee determined that the promotions and increased job responsibilities merited the salary increases.

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COMPENSATION INFORMATION

Annual Cash Incentive Awards

For 2007, after reviewing each executive officer s role and pay relative to internal peers, the Compensation Committee increased target awards for Ms. Dwyer, 5%; and Ms. McWhinney, 25%. The target awards for the named executive officers as a percentage of base salary were: 350% for Mr. Schwab, 140% for Mr. Dodds, 250% for Mr. Bettinger, 130% for Ms. Dwyer, 100% for Mr. Goldman, 400% for Mr. Scaturro, and 150% for Ms. McWhinney. In recognition of their promotions, the Compensation Committee set Mr. Martinetto s target award at 100% upon his promotion to Chief Financial Officer and increased Mr. Goldman s target award to 110% upon his promotion to Executive Vice President Schwab Institutional. The target awards set in recognition of these promotions were outside of the Corporate Executive Bonus Plan because they were established after the first 90 days of the annual performance period.

The Compensation Committee set target awards for certain executive officers based solely on overall corporate performance, while the awards for executive officers who lead business units were based on both overall corporate performance and the performance of their business units. For the named executive officers, the funding mix approved by the Compensation Committee in 2007 was 100% on overall corporate performance for Mr. Schwab, Mr. Dodds, Mr. Bettinger, Mr. Martinetto, and Ms. Dwyer, and 40% on overall corporate performance and 60% on the performance of the Schwab Institutional segment for Mr. Goldman and Ms. McWhinney. The Compensation Committee approved separate performance criteria for Mr. Scaturro and U.S. Trust executive officers.

For 2007, the Compensation Committee approved performance criteria of revenue growth and pre-tax profit margin. The Compensation Committee chose revenue growth and profit margin because they drive earnings growth and create stockholder value. The Compensation Committee believes these measures are appropriate for a growth company. The goals for revenue growth and profit margin (assuming awards would be paid at 100% of target), as well as the actual results achieved, are as follows:

Matrix	Target Revenue Growth	Actual Revenue Growth	Target Profit Margin	Actual Profit Margin
Overall Corporate	12.0%	15.9%	36.8%	37.1%
Schwab Institutional	11.8%	16.0%	41.6%	42.7%

The Compensation Committee reserves discretion to reduce funding below the levels indicated in the matrices; however, it did not exercise negative discretion in determining individual awards for the named executive officers in 2007. The Compensation Committee generally rounds down when determining the funding percentage and followed this practice for 2007. Using the approved performance measures, the formula-based matrices supported award payouts of 117.6% for corporate performance and 128.7% for Schwab Institutional performance. The Compensation Committee authorized actual 2007 annual cash incentive awards of 117% of target for Mr. Schwab, Mr. Bettinger, and Ms. Dwyer based on overall corporate performance under the Corporate Executive Bonus Plan.

For Mr. Goldman, the formula based matrices and the blended percentages of 40% on overall corporate performance and 60% on the performance of Schwab Institutional supported an award payout of 123.6% of target. The Compensation Committee authorized a 2007 award of 123.6% for Mr. Goldman. Mr. Goldman received $535,394 under the Corporate Executive Bonus Plan and $53,539 outside of the plan. The additional amount received outside the plan reflects the 10% increase in Mr. Goldman s target bonus as a result of his promotion to Executive Vice President Schwab Institutional in July 2007.

Mr. Martinetto did not receive an annual incentive bonus under the Corporate Executive Bonus Plan because he was promoted to executive vice president after the Compensation Committee determined the performance criteria and goals for 2007. The Compensation Committee awarded Mr. Martinetto a bonus outside the plan at 117% of his target award.

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COMPENSATION INFORMATION

Mr. Dodds, Ms. McWhinney and Mr. Scaturro did not receive a cash incentive award because they were no longer employees at the end of the performance period (December 31, 2007).

The Compensation Committee uses the 75 th percentile as its reference benchmark for total cash opportunities (base salary and annual cash incentives). The competitive executive pay assessment completed by Hewitt Associates showed total target cash opportunities were between the median and the 75th percentile for the Chairman and Chief Executive Officer and the other named executive officers. Actual annual cash incentive awards paid (as a percentile of the benchmark amounts paid by peer companies) may vary widely year to year, due to factors including the company s actual performance and variance in awards paid by peer companies.

In the first quarter of 2008, the Compensation Committee selected performance criteria for 2008 annual cash incentive awards under the Corporate Executive Bonus Plan. The performance criteria are revenue growth and pre-tax profit margin. Executive bonuses under the Corporate Executive Bonus Plan for 2008 will be based on overall corporate performance with respect to these criteria.

Long-Term Incentives

Cash

The 2004 long-term cash incentive award performance period ended December 31, 2007. The company had cumulative earnings per share of $2.42 for the performance period (including operating results of U.S. Trust through June 2007 and excluding the gain on the sale of U.S. Trust, the gain on the resolution of a legal matter and a $15 million tax benefit resulting from the payment of a special dividend in August 2007). The 2004 long-term cash incentive award performance schedule was approved by the Compensation Committee in July 2004. The Compensation Committee approved a payout of $3.11 per unit for the performance period based on the previously approved performance schedule.

Equity

In 2007, the Compensation Committee granted long-term equity awards of 75% premium-priced options and 25% performance-based restricted stock to all executive officers, except the Chairman and Chief Executive Officer and President and Chief Operating Officer. The Chairman and Chief Executive Officer and President and Chief Operating Officer received 100% premium-priced options to increase their at-risk pay in light of their overall responsibility for corporate performance. The exercise price of the options was set at a premium of 3% above the fair market value of the company s common stock on the date of grant. The options vest 25% on each of the first, second, third and fourth anniversary of the grant date and have a term of seven years. The performance-based restricted shares vest 25% on each of the first, second, third and fourth anniversary of the grant date provided the company achieves financial performance goals set forth in the matrix approved by the Compensation Committee. Vesting is dependent on revenue growth and profit margin according to a sliding scale defined by the following points: revenue growth of 13% and profit margin of 31.8%, and revenue growth of 7% and profit margin of 37.8%. If the performance goals are not met for each year, the shares that would otherwise vest that year are forfeited.

The Compensation Committee granted 25% performance-based restricted stock to the named executive officers, except the Chairman and Chief Executive Officer and the President and Chief Operating Officer, so that these executive officers would receive at least a portion of their equity compensation if the revenue growth and profit margin performance goals are met.

The Compensation Committee also granted options and time-vested restricted stock to Messrs. Bettinger, Martinetto and Goldman in connection with their promotions. The Compensation Committee determined that these promotions and increased job responsibilities merited the equity grants.

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COMPENSATION INFORMATION

Perquisites

At its discretion, the Compensation Committee may approve additional monies above the perquisite allowance. In 2007, the Compensation Committee awarded an additional cash payment of $1,400,000 to Mr. Bettinger in lieu of in-kind perquisites. The amount was intended to compensate him for a variety of expenses including rental housing and family travel expenses resulting from his promotion to President and Chief Operating Officer.

The company does not provide a perquisite allowance to Mr. Schwab. The company incurs costs for a driver, security systems and equipment that are necessary for his protection as the company s founder and its Chairman and Chief Executive Officer. These security systems were established on the recommendation of an independent, third-party consulting firm retained in 2002 as part of the company s business protection plans. Pursuant to the consultant s security study, the company provided Mr. Schwab with the installation of a security system at his personal residence prior to 2007, portions of which Mr. Schwab paid for personally.

As part of the compensation package that the Compensation Committee approved for Mr. Scaturro and described in his offer letter, the company provided Mr. Scaturro with a driver and car service for commuting to and from work and for business-related travel.

Termination and Change-in-Control Arrangements

The Compensation Committee is responsible for reviewing and approving employment agreements, severance arrangements, change in control agreements or provisions and any special arrangements with executive officers on a case by case basis.

Peter Scaturro

Mr. Scaturro received the payments described in the narrative to the Summary Compensation Table in 2007 pursuant to the terms of his offer letter and the retention agreement approved by the Board of Directors in connection with the sale of U.S. Trust. Payments under the retention agreement with Mr. Scaturro were contingent on the completion of the transaction and were intended to ensure a smooth transition.

Deborah McWhinney

Under a separation agreement approved by the Compensation Committee, Ms. McWhinney received the payments described in the narrative to the Summary Compensation Table in 2007. The Separation Agreement included covenants against solicitation of clients and employees.

Tax Considerations

Section 162(m) of the Internal Revenue Code limits tax deductions for certain executive compensation over $1 million. Certain types of compensation are deductible only if they are performance-based and approved by the stockholders and certain other legal requirements are met. The Compensation Committee believes that it is generally in the best interests of stockholders to structure compensation plans so that compensation is performance based and therefore deductible under Section 162(m). Accordingly, the Corporate Executive Bonus Plan, the Long Term Incentive Plan, and the 2004 Stock Incentive Plan are designed to provide performance-based compensation and have been approved by stockholders.

At times, the Compensation Committee has determined that the benefit of tax deductibility is outweighed by other corporate objectives and strategic needs. The Compensation Committee may use its discretion in appropriate cases to approve compensatory arrangements that do not permit for deductibility under Section 162(m). Base salaries of all the named executive officers were below the $1 million limit in 2007. However, certain other compensation, such as vesting of past equity awards that are not performance-based (e.g., time-vested restricted stock granted in prior years), bonuses paid outside stockholder approved plans (e.g., bonuses paid pursuant to promotions, offer letters and retention agreements), perquisite allowances or the payment of the special dividend in August 2007 on unvested restricted stock may cause the overall compensation of a named executive officer to exceed the $1 million limit.

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COMPENSATION INFORMATION

COMPENSATION COMMITTEE REPORT

The Compensation Committee is composed entirely of independent directors as determined by the Board of Directors in accordance with the listing standards of the Nasdaq Stock Market.

The Board of Directors has adopted a written Compensation Committee charter. The charter is available on our website at *www.aboutschwab.com/governance*.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on the review and discussions referred to above, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the company s annual report on Form 10-K for the fiscal year ended December 31, 2007 and the proxy statement on Schedule 14A.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Roger O. Walther, Chairman

Nancy H. Bechtle

Frank C. Herringer

Paula A. Sneed

Robert N. Wilson

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COMPENSATION INFORMATION

SUMMARY COMPENSATION TABLE

This table shows compensation information for Charles R. Schwab, the company s Chairman and Chief Executive Officer, Joseph R. Martinetto, the company s Chief Financial Officer, and the next three most highly compensated executive officers as of December 31, 2007. It also provides information for the following individuals who served in their respective positions for a portion of 2007: Christopher V. Dodds, former Executive Vice President and Chief Financial Officer; Deborah D. McWhinney, former Executive Vice President Schwab Institutional; and Peter K. Scaturro, former Executive Vice President and Chief Executive Officer of U.S. Trust. We refer to each of these officers as a named executive officer. Amounts for 2006 are included for those individuals who were named executive officers in that year.

2007 Summary Compensation Table

NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS [1] ($)	STOCK AWARDS [2] ($)	OPTION AWARDS [3] ($)	NON-EQUITY INCENTIVE PLAN COMPEN-SATION [4] ($)	CHANGE IN PENSION VALUE AND NON-QUALIFIED DEFERRED COMPEN-SATION EARNINGS [5] ($)	ALL OTHER COMPEN-SATION [6] ($)	TOTAL ($)
Charles R. Schwab [7]	2007	900,000			1,907,679	3,685,500		77,365	6,570,544
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	2006	900,000			274,912	4,252,500		200,845	5,628,257
Joseph R. Martinetto	2007	381,210	409,465	117,228	122,066	427,625		71,071	1,528,665
CHIEF FINANCIAL OFFICER									
Walter W. Bettinger II	2007	683,333		1,561,419	1,889,843	7,052,500		1,953,026	13,140,121
PRESIDENT AND CHIEF OPERATING OFFICER	2006	587,500		352,296	172,858	1,658,354		68,162	2,839,170
Carrie E. Dwyer	2007	498,333		629,880	292,353	2,701,715		205,757	4,328,038

EXECUTIVE VICE PRESIDENT, GENERAL COUNSEL AND CORPORATE SECRETARY	2006	490,000		559,471	165,015	1,276,875		70,592	2,561,953
Charles G. Goldman	2007	433,167	53,539	99,086	172,541	1,312,894		70,388	2,141,615
EXECUTIVE VICE PRESIDENT SCHWAB INSTITUTIONAL									
Christopher V. Dodds	2007	337,931		(406,743)	(28,367)	1,244,000		189,880	1,336,701
FORMER CHIEF FINANCIAL OFFICER	2006	550,000		591,338	304,503	1,664,500		72,875	3,183,216
Deborah D. McWhinney (8)	2007	348,526		420,385	98,362	5,053,750		3,532,937	9,453,960
FORMER EXECUTIVE VICE PRESIDENT SCHWAB INSTITUTIONAL									
Peter K. Scaturro (9)	2007	261,543		1,332,272	971,804			14,461,785	17,027,404
FORMER EXECUTIVE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER, U.S. TRUST	2006	500,000		422,384	442,573	2,000,000	17,471	102,769	3,485,197

(1) The amounts shown in this column represent bonuses paid outside of the Corporate Executive Bonus Plan, a non-equity incentive plan, for officers who received promotions after the beginning of the performance period.

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COMPENSATION INFORMATION

(2) The amounts shown in this column represent the dollar amount of the expense related to restricted stock awards recognized by the company in 2007 for financial statement reporting purposes in accordance with Statement of Financial Accounting Standards (FAS) No. 123R, but they do not include estimates of forfeitures related to service-based vesting conditions. For further discussion of the company s accounting for its equity compensation plans, including key assumptions, see Part II Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 2. Significant Accounting Policies, and Note 14. Employee Incentive, Deferred Compensation, and Retirement Plans from the company s Form 10-K for the period ending December 31, 2007.

Mr. Dodds forfeited unvested restricted shares from his July 2003 and October 2006 grants when he retired in 2007. Ms. McWhinney and Mr. Scaturro forfeited their unvested restricted shares from the October 2006 grant when their employment terminated in 2007. As a result, the following amounts previously shown as expensed in the Summary Compensation Table were reversed in 2007: $431,416 for Mr. Dodds, and $22,603 for Mr. Scaturro. Our 2007 consolidated financial statements do not include the following amounts that would have been expensed for the forfeited shares: $312,666 for Mr. Dodds, $128,251 for Ms. McWhinney, and $68,893 for Mr. Scaturro.

(3) The amounts shown in this column represent the dollar amount of the expense related to stock option awards recognized by the company in 2007 for financial statement reporting purposes in accordance with FAS No. 123R, but they do not include estimates of forfeitures related to service-based vesting conditions. For further discussion of the company s accounting for its equity compensation plans, including key assumptions, see Part II Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 2. Significant Accounting Policies, and Note 14. Employee Incentive, Deferred Compensation, and Retirement Plans from the company s Form 10-K for the period ending December 31, 2007.

Mr. Dodds forfeited unvested stock options from his September 2004 and October 2006 grants when he retired in 2007. Ms. McWhinney and Mr. Scaturro forfeited their unvested stock options from the October 2006 grant when their employment terminated in 2007. As a result, the following amounts previously shown as expensed in the Summary Compensation Table were reversed in 2007: $28,367 for Mr. Dodds, and $25,234 for Mr. Scaturro. Our 2007 consolidated financial statements do not include the following amounts that would have been expensed for the forfeited options: $155,821 for Mr. Dodds, $138,566 for Ms. McWhinney, and $74,432 for Mr. Scaturro.

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COMPENSATION INFORMATION

(4) The amounts shown in this column include amounts earned under the Corporate Executive Bonus Plan and long-term compensation cash awards earned under the Long Term Incentive Plan for the performance period ending December 31, 2007. Those amounts are as follows:

Named Executive Officer	Corporate Executive Bonus Plan ($)	Long Term Incentive Plan ($)
Charles R. Schwab	3,685,500	
Joseph R. Martinetto		427,625
Walter W. Bettinger II	1,998,750	5,053,750
Carrie E. Dwyer	757,965	1,943,750
Charles G. Goldman	535,394	777,500
Christopher V. Dodds		1,244,000
Deborah D. McWhinney		5,053,750
Peter K. Scaturro		

(5) The company does not offer above-market or preferential earnings under nonqualified deferred compensation plans or defined contribution plans.

The company does not offer defined benefit and actuarial pension plans except, during the time it owned U.S. Trust Corporation, the U.S. Trust Corporation Employees Retirement Plan, in which Mr. Scaturro participated. Because Mr. Scaturro did not fully vest in his pension plan account at the time of sale, the change in the actuarial present value for Mr. Scaturro in 2007 declined by $11,000.

(6) The amounts shown in this column include the following:

Named Executive Officer	Employer Matching Contributions [a] ($)	Restricted Stock Dividends [b] ($)	Perquisite Allowance [c] ($)	Security Costs [d] ($)	Severance [e] ($)
Charles R. Schwab	11,500			48,724	
Joseph R. Martinetto	11,500	26,594	32,250		
Walter W. Bettinger II	11,500	442,035	1,436,000		

Carrie E. Dwyer	11,500	157,163	36,000	
Charles G. Goldman	11,500	18,260	36,000	
Christopher V. Dodds		168,229	21,000	
Deborah D. McWhinney		143,877	21,000	3,365,600
Peter K. Scaturro		20,355	18,000	14,408,496

In addition to the amounts shown in the table above, the company incurred driver and vehicle costs for Mr. Schwab and Mr. Scaturro, and spousal travel and a related tax gross-up for Mr. Scaturro. Those costs are included in the amounts shown in the All Other Compensation column of the Summary Compensation Table.

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COMPENSATION INFORMATION

On certain occasions in 2007, Mr. Bettinger and his family members took personal flights on chartered or fractionally-owned aircraft when accompanying company executives traveling for business purposes. There was no aggregate incremental cost to the company for these flights other than amounts for lost tax deductions when family members accompanied Mr. Bettinger on business travel, and those amounts are included in the All Other Compensation column of the Summary Compensation Table. Also included is the aggregate incremental cost to the company, based on the hourly rate charged for the aircraft, of a personal stopover Mr. Bettinger made when traveling on business.

(a) The amounts in this column are the employer match under the company s defined contribution plan, the SchwabPlan Retirement Savings and Investment Plan, which is available to all eligible employees.

(b) The amounts in this column show dividends on restricted stock awards that were not included in the fair market value of the stock on the grant date as shown in the Grants of Plan-Based Awards Table and include the $1.00 special dividend paid in August 2007.

(c) The amounts in this column include an annual, pro-rated perquisites allowance of $36,000 for all executive officers, except Mr. Schwab. In connection with Mr. Bettinger s promotion to President and Chief Operating Officer, it also includes a special, one-time cash payment of $1,400,000 in lieu of in-kind perquisites that was intended to compensate him for expenses he would incur for a period of time, including rental housing and family travel expenses.

(d) The amounts in this column represent costs for maintaining security systems and equipment for the protection of the Chairman and Chief Executive Officer, which were established as part of the company s business protection plans and not for his personal benefit. The company adopted these security measures as part of the company s business protection plans on the recommendation of an independent, third-party consulting firm. The value of maintaining security systems and equipment is measured at its aggregate incremental cost to the company, which includes the invoiced costs for monitoring and maintenance of the system.

(e) In the case of Mr. Scaturro, this amount consisted of $5,000,000 pursuant to the change-in-control provisions of his offer letter, lump sum payments of $8,946,196 pursuant to the terms of his retention agreement, and $462,300 accrued for the 2005 Long Term Incentive Plan for the performance period ending December 31, 2008, in which he was vested upon his separation. In the case of Ms. McWhinney, this amount consisted of $900,000 pursuant to her separation agreement and $2,465,600 representing amounts accrued for the 2005 Long Term Incentive Plan for the performance period ending December 31, 2008, in which she was vested upon her separation.

(7) Mr. Schwab has had an employment contract with the company since 1987. His employment contract is described in the narrative to the Summary Compensation Table and Grants of Plan-Based Awards Table.

(8) Ms. McWhinney entered into a separation agreement, the terms of which are described in the narrative to the Summary Compensation Table and Grants of Plan-Based Awards Table.

(9) Mr. Scaturro entered into a retention agreement as part of the sale of U.S. Trust to Bank of America. The terms of his original offer letter and the retention agreement are described in the narrative to the Summary Compensation Table and Grants of Plan-Based Awards Table.

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COMPENSATION INFORMATION

GRANTS OF PLAN-BASED AWARDS

This table shows grants of plan-based awards to the named executive officers during 2007.

2007 Grants of Plan-Based Awards Table

			ESTIMATED POSSIBLE PAYOUTS UNDER NON-EQUITY INCENTIVE PLAN AWARDS [2]			ESTIMATED FUTURE PAYOUTS UNDER EQUITY INCENTIVE PLAN AWARDS [3]						
NAME	GRANT DATE	DATE OF ACTION IF NOT GRANT DATE [1]	THRES-HOLD ($)	TARGET ($)	MAXIMUM ($)	THRES-HOLD (#)	TARGET (#)	MAXIMUM (#)	ALL OTHER STOCK AWARDS: NUMBER OF SHARES OF STOCK (#) [4]	ALL OTHER OPTION AWARDS: NUMBER OF SECURITIES UNDERLYING OPTIONS (#) [5]	EXERCISE OR BASE PRICE OF OPTION AWARDS ($/Sh) [5]	GRANT DATE FAIR VALUE OF EQUITY AWARDS ($) [6]
Charles R. Schwab	2/21/2007			3,150,000	6,300,000							
	11/1/2007	10/18/2007								487,466 [7]	23.33	3,500,000 [11
Joseph R. Martinetto	5/18/2007	4/25/2007							9,941			202,500 [12
	5/18/2007	4/25/2007								34,972 [8]	19.99	247,500 [12
	11/1/2007	10/18/2007					10,987					250,000 [11
	11/1/2007	10/18/2007								104,457 [7]	23.33	750,000 [11
Walter W. Bettinger II	2/20/2007								250,000			4,885,000 [13
	2/20/2007									1,048,900 [9]	18.65	6,517,865 [13
	2/21/2007			1,750,000	3,500,000							
	11/1/2007	10/18/2007								348,190 [7]	23.33	2,500,000 [11
Carrie E. Dwyer	2/21/2007			650,000	1,300,000							
	11/1/2007	10/18/2007					8,790					200,000 [11
	11/1/2007	10/18/2007								83,566 [7]	23.33	600,000 [11
Charles G. Goldman	2/21/2007			416,000	832,000							
	10/1/2007	7/24/2007							15,327			337,500 [14
	10/1/2007	7/24/2007								57,693 [10]	22.41	412,500 [14
	11/1/2007	10/18/2007					10,987					250,000 [11
	11/1/2007	10/18/2007								104,457 [7]	23.33	750,000 [11
Christopher V. Dodds	2/21/2007			770,000	1,540,000							

Deborah D. McWhinney	2/21/2007		787,500	1,575,000
Peter K. Scaturro	2/21/2007	1,460,000	2,000,000	2,320,000

(1) This column shows the date that the Compensation Committee or the independent directors took action with respect to the equity award if that date is different than the grant date. If the grant date is not the meeting date, it is a fixed, future date specified at the time of the grant.

(2) These columns show the range of possible payouts for annual cash incentive awards granted in 2007 under the Corporate Executive Bonus Plan (CEBP). The actual annual cash incentive awards paid for 2007 performance under the CEBP are shown in footnote 4 to the Summary Compensation Table.

(3) These performance-based restricted stock awards were granted under the 2004 Stock Incentive Plan at a grant price of $22.76 (the average of the high and low stock price on the grant date). Shares vest in equal installments of 25% on the first, second, third and fourth anniversary of the grant date. If a corporate performance hurdle related to pre-tax adjusted income divided by revenue and revenue growth is not met for a performance period, then the shares that would have otherwise vested for that year will be forfeited.

(4)