

SCHWAB CHARLES CORP
Form DEF 14A
March 30, 2005
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SCHEDULE 14A

**Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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The Charles Schwab Corporation

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

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THE CHARLES SCHWAB CORPORATION 2005 PROXY STATEMENT

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LETTER TO STOCKHOLDERS

March 30, 2005

Dear Fellow Stockholders,

We cordially invite you to attend our 2005 annual meeting of stockholders. The meeting will be held on Thursday, May 19, 2005, at 2:00 p.m., Pacific time, at the Four Seasons Hotel, 757 Market Street, San Francisco, California.

At the meeting we will:

- elect five directors for three-year terms,
- vote on an amendment to the 2004 Stock Incentive Plan regarding grants to non-employee directors,
- vote on an amendment to the Corporate Executive Bonus Plan regarding performance measures,
- vote on a stockholder proposal regarding terms of directors, and
- consider any other business properly coming before the meeting.

We also will report on our corporate performance in 2004 and answer your questions.

We wish to express our appreciation and gratitude to George P. Shultz for his distinguished service to the company as a director for more than seven years. Dr. Shultz retired from the Board on December 31, 2004. We are pleased that Dr. Shultz has agreed to serve as an emeritus director of The Charles Schwab Corporation.

We look forward to seeing you at our annual meeting. If you cannot attend the meeting in person, we hope you will join us via our webcast.

Sincerely,

CHARLES R. SCHWAB

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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NOTICE OF 2005 ANNUAL MEETING OF STOCKHOLDERS

The 2005 annual meeting of stockholders of The Charles Schwab Corporation will be held on Thursday, May 19, 2005, at 2:00 p.m., Pacific time, at the Four Seasons Hotel, 757 Market Street, San Francisco, California, to conduct the following items of business:

- elect five directors for three-year terms,
- vote on an amendment to the 2004 Stock Incentive Plan regarding grants to non-employee directors,
- vote on an amendment to the Corporate Executive Bonus Plan regarding performance measures,
- vote on a stockholder proposal regarding terms of directors, 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 21, 2005 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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VOTING YOUR SHARES

This proxy statement describes the proposals on which you may vote as a stockholder of The Charles Schwab Corporation. It contains essential information to consider when voting.

We, the company's Board of Directors, are sending these proxy materials to you on or about March 30, 2005.

Your vote is important.

VOTING YOUR SHARES

Stockholders who owned the company's common stock at the close of business on March 21, 2005 may attend and vote at the annual meeting. Each share is entitled to one vote. There were 1,309,549,093 shares of common stock outstanding on March 21, 2005.

How do I vote?

ü You may vote on the Internet.

You do this by following the "Vote by Internet" instructions that came with your proxy statement. If you vote on the Internet, you do not have to mail in your proxy card.

ü You may vote by telephone.

You do this by following the "Vote by Telephone" instructions that came with your proxy statement. If you vote by telephone, you do not have to mail in your proxy card.

ü You may vote by mail.

You do this by completing and signing your proxy card and mailing it in the enclosed prepaid and addressed envelope.

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- You may vote in person at the meeting.

We will pass out written ballots to anyone who wants to vote in person at the meeting. However, if you hold your shares in street name, you must request a proxy from your stockbroker in order to vote at the meeting. Holding shares in street name means you hold them through a brokerage firm, bank or other nominee, and therefore the shares are not held in your individual name.

What am I voting on?

We are asking you to vote:

- *for* the election of five directors for terms of three years,
- *for* the approval of an amendment to the 2004 Stock Incentive Plan regarding grants to non-employee directors,
- *for* the approval of an amendment to the Corporate Executive Bonus Plan regarding performance measures, and
- *against* a stockholder proposal regarding terms of directors.

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PROPOSALS TO VOTE ON

ITEM 1. 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 new three-year term.

*We recommend a vote **for** these nominees.*

ITEM 2. APPROVAL OF AN AMENDMENT TO THE 2004 STOCK INCENTIVE PLAN REGARDING GRANTS TO NON-EMPLOYEE DIRECTORS

In January 2005, the Compensation Committee and the Board recommended two changes to stock-based grants to non-employee directors, as outlined below. The Board adopted an amendment to the 2004 Stock Incentive Plan reflecting these two changes, subject to stockholder approval. These recommendations were based on our review of the non-employee directors' compensation program. The review included a comparison to non-employee directors' compensation at peer group companies.

The first change relates to the number of options granted to a new non-employee director. Currently, upon joining the Board, a non-employee director is entitled to a one-time grant of 5,000 stock options. Under the amendment, a non-employee director would be entitled to a one-time grant of 10,000 stock options.

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The second change relates to the annual grant of restricted stock to non-employee directors. Currently, non-employee directors are entitled to an annual grant of restricted stock with a fair market value of \$50,000. Under the amendment, non-employee directors would be entitled to an annual grant of restricted stock with a fair market value of \$60,000, starting in 2005.

We believe that these changes better align non-employee directors' compensation with stockholders' interests and with peer group directors' compensation.

For more information about the terms and conditions of stock-based grants to non-employee directors and non-employee director compensation generally, please refer to the section entitled "Director Compensation."

For more information about the 2004 Stock Incentive Plan, as it would be amended, see the description in Exhibit A. The table for the stock-based grants that would have been made under the plan in 2004 to non-employee directors, based on certain assumptions, had the amended plan been in effect in 2004, is also included in Exhibit A.

*We recommend a vote **for** the approval of the amendment to the 2004 Stock Incentive Plan regarding grants to non-employee directors.*

ITEM 3. APPROVAL OF AN AMENDMENT TO THE CORPORATE EXECUTIVE BONUS PLAN REGARDING PERFORMANCE MEASURES

In February, 2005, the Compensation Committee adopted amendments to the Corporate Executive Bonus Plan, subject to stockholder approval. The plan provides for the payment of bonuses to executive officers based on attainment of certain performance objectives. Performance criteria under the amended plan may be measured on a corporate, subsidiary, enterprise or business unit basis, or a combination thereof. Under the amended plan, the Compensation Committee is able to select from among various performance measures as set forth in Exhibit E to this proxy statement.

We believe this amendment gives the Compensation Committee appropriate flexibility to use enterprise-specific performance measures to motivate executive

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PROPOSALS TO VOTE ON

officers in charge of different businesses of the company. We think the amendment will directly link these executive officers' pay with corporate performance in addition to performance of the businesses that they oversee, which is in keeping with our pay-for-performance compensation philosophy.

Section 162(m) of the Internal Revenue Code authorizes tax deductions for certain executive compensation in excess of \$1 million only if such compensation is paid under a plan with stockholder-approved performance criteria and maximum payment caps. We therefore request stockholder approval on the application of the performance criteria, as described above, and certain dollar caps on annual bonuses under the plan. These dollar caps will replace the current limits in the plan, which are based on a multiple of year 2000 base salary. Please refer to Exhibit E for an explanation of the current limits.

Under the plan as proposed to be amended the maximum annual award is \$8 million for all participants other than the Chief Executive Officer and \$15 million for the Chief Executive Officer. The dollar caps under the amended plan are only maximums and are not indicative of prior or future payments under the plan. For 2004, 2003, 2002 and 2001, payments under the plan, expressed as percentages of target awards, were 63.75%, 43.6%, 0% and 0%, respectively, and did not exceed \$1 million in any year for any named executive officer.

For more information about the plan, as amended, please refer to Exhibit E to this proxy statement.

*We recommend a vote **for** the approval of the amendment to the Corporate Executive Bonus Plan.*

ITEM 4. STOCKHOLDER PROPOSAL REGARDING TERMS OF DIRECTORS

William C. Thompson, Jr., Comptroller, City of New York, on behalf of the Boards of Trustees of the New York City Pension Funds, 1 Centre Street, New York, New York 10007-2341, which hold approximately 3,552,500 shares of company stock, has submitted a proposal for consideration at the annual meeting. The proposal and stockholder's statement of support, as submitted, appear in italics below. The company's statement in opposition to the proposal follows the stockholder's statement.

Stockholder Resolution

Be it resolved, that the stockholders of The Charles Schwab Corporation request that the Board of Directors take the necessary steps to declassify the Board of Directors and establish annual elections of directors, whereby directors would be elected annually and not by classes. This policy would take effect immediately, and be applicable to the re-election of any incumbent director whose term, under the current classified system, subsequently expires.

Stockholder s Statement of Support

We [the New York Funds] believe that the ability to elect directors is the single most important use of the shareholder franchise. Accordingly, directors should be accountable to shareholders on an annual basis. The election of directors by classes, for three-year terms, in our opinion, minimizes accountability and precludes the full exercise of the rights of shareholders to approve or disapprove annually the performance of a director or directors.

In addition, since only one-third of the Board of Directors is elected annually, we believe that classified boards could frustrate, to the detriment of long-term shareholder interest, the efforts of a bidder to acquire control or a challenger to engage successfully in a proxy contest.

We urge your support for the proposal to repeal the classified board and establish that all directors be elected annually.

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PROPOSALS TO VOTE ON

Board of Directors Recommendation Against and Statement in Opposition to the Proposal

After consideration of this proposal, we recommend that the stockholders vote AGAINST it because we believe it is not in the best interests of the company and its stockholders.

In 1996, stockholders approved the election of directors by classes. Approximately 75% of stockholders voting on the proposal voted in its favor. Stockholders voted in favor of a classified board at that time to ensure the continuity and stability of the company's directors and policies, so that a majority of directors at any given time would have prior experience as directors of the company. We believe this continuity enhances institutional knowledge and the experience of our directors with the company's business, improves stability and long-term planning, and promotes orderly transitions as directors leave the Board. Such classification also helps ensure that the Board, if confronted with an unsolicited proposal for an extraordinary corporate transaction from a third party, would have sufficient time to review the proposal and alternatives.

The factors that led a majority of stockholders to vote in favor of the classified board proposal in 1996 are even more important today. Corporate governance reforms that provide more stringent guidelines for director independence and additional responsibilities for the Board's oversight role of the audit, nominating and compensation functions highlight the need for experienced directors who can act independently, who are familiar with the company and its business, and who are committed to the long-term needs of the company and its stockholders. The company's current system of three-year terms supports these goals, and we believe that it has been effective since its introduction in 1996.

We respectfully disagree that three-year terms minimize accountability to stockholders or interfere with the efforts of a bidder to acquire control. To the contrary, classification ensures that the Board has sufficient opportunity to evaluate an extraordinary transaction, giving the company more leverage to maximize stockholder value in the long-term. A classified board does not reduce accountability of directors, who are required to uphold their fiduciary duties to the company and its stockholders. In fact, we believe that a classified board enhances the ability of directors to act independently with respect to the interests of all stockholders, and especially individual stockholders, rather than to the special interests of a few who do not take a long-term view.

*We recommend a vote **against** the stockholder proposal regarding terms of directors.*

OTHER BUSINESS

We know of no other business to be considered at the meeting. However, if:

- other matters are properly presented at the meeting, or at any adjournment or postponement of the meeting, and

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- you have properly submitted your proxy, then Charles R. Schwab will vote your shares on those matters according to his best judgment.

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THE BOARD OF DIRECTORS

MEMBERS OF THE BOARD OF DIRECTORS

NANCY H. BECHTLE

DIRECTOR SINCE 1992

Ms. Bechtle, age 67, served as President and Chief Executive Officer of the San Francisco Symphony from 1987 until December 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 also has served as Chairman and Chief Executive Officer of Sugar Bowl Ski Resort, and as a director of Sugar Bowl Corporation, since 1998. Ms. Bechtle's term expires in 2006.

C. PRESTON BUTCHER

DIRECTOR SINCE 1988

Mr. Butcher, age 66, 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 2006.

DONALD G. FISHER

DIRECTOR SINCE 1988

Mr. Fisher, age 76, is the founder of Gap Inc., a nationwide specialty retail clothing chain. He is a director and Chairman Emeritus of the Board of Gap Inc. He also was Chief Executive Officer of Gap Inc. from 1969 to 1995. Since 1997, Mr. Fisher has been a trustee of the Presidio Trust by appointment of former President Clinton. He is a member of the California State Board of Education and served on the Advisory Council for the Office of the U.S. Trade Representative from 1987 until 1998. Mr. Fisher's term expires in 2007.

FRANK C. HERRINGER

DIRECTOR SINCE 1996

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Mr. Herringer, age 62, 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 U.S.A. Mr. Herringer is also a director of AT&T Corporation, a voice, video and data communications company; Amgen, Inc., a biotechnology company; and Mirapoint, Inc., an Internet message infrastructure equipment developer. Mr. Herringer is a nominee for election this year.

STEPHEN T. MCLIN

DIRECTOR SINCE 1988

Mr. McLin, age 58, 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 a director of BCG ValueScience, Inc., a joint venture of the Boston Consulting Group and ValueScience, Inc. He 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.

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THE BOARD OF DIRECTORS

CHARLES R. SCHWAB

DIRECTOR SINCE 1986

Mr. Schwab, age 67, has been Chairman and a director of The Charles Schwab Corporation since its incorporation in 1986. Effective July 20, 2004, Mr. Schwab was appointed as Chief Executive Officer of the company, replacing David S. Pottruck. Mr. Schwab was 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 July 20, 2004. Mr. Schwab is currently a director of U.S. Trust Corporation and United States Trust Company of New York (which are subsidiaries of The Charles Schwab Corporation). He is also Chairman of Charles Schwab Bank, N.A., and a 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 57, has been Senior Vice President, Global Marketing Resources, of Kraft Foods, Inc., a national food packaging company, since January 2004. She served as Group Vice President and President of E-Commerce and Marketing Services for Kraft Foods North America, part of Kraft Foods, Inc., from 2000 until January 2004. She joined General Foods Corporation (which later merged with Kraft Foods) in 1977 and has held a variety of management positions, including Vice President, Consumer Affairs; Senior Vice President and President, Foodservice Division; Executive Vice President and General Manager, Desserts Division; Executive Vice President and General Manager, Dinners and Enhancers Division; Senior Vice President, Marketing Service and Chief Marketing Officer; and Executive Vice President, President E-Commerce Division. Ms. Sneed is a director of Airgas, Inc., a national distributor of industrial, medical and specialty gases and related equipment. Ms. Sneed's term expires in 2007.

ROGER O. WALTHER

DIRECTOR SINCE 1989

Mr. Walther, age 69, has served as Chairman and Chief Executive Officer of Tusker Corporation, a real estate and business management company, since August 1997. He served as Chairman and Chief Executive Officer of ELS Educational Services, Inc., a provider in the United States 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 February 1993. Since 1985, Mr. Walther has served as Chairman and has been a director of First Republic Bank. Mr. Walther is a nominee for election this year.

ROBERT N. WILSON

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DIRECTOR SINCE 2003

Mr. Wilson, age 64, has been Chairman of Caxton Health Holdings since April 2004. Prior to his association with Caxton Health Holdings, Mr. Wilson 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 U.S. Trust Corporation and United States Trust Company of New York; Amerada Hess Corporation, an integrated oil and gas company; and Synta Corporation, a bio-pharmaceutical company. Mr. Wilson is a nominee for election this year.

DAVID B. YOFFIE

DIRECTOR SINCE 2003

Professor Yoffie, age 50, has been the Max and Doris Starr Professor of International Business Administration at the Harvard Business School since 1993 and has been a member of the Harvard University faculty since 1981. Professor Yoffie is also a director of the National Bureau of Economic Research; Intel Corporation, a maker of microcomputer and communications components; and Spotfire, Inc., a provider of analytic and visualization software applications. Professor Yoffie's term expires in 2007.

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THE BOARD OF DIRECTORS

NUMBER OF DIRECTORS AND TERMS

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

Our directors serve staggered terms. This is accomplished as follows:

- each director who is elected at an annual meeting of stockholders serves a three-year term,
- the directors are divided into three classes,
- the classes are as nearly equal in number as possible, and
- the term of each class begins on a staggered schedule.

BOARD AND COMMITTEE MEETINGS

The Board held six regular meetings and four special meetings in 2004. Each director attended at least 75% of all Board and applicable committee meetings during 2004. 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 2004, all of the 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 2004
<p>AUDIT</p> <p>Stephen T. McLin, Chairman⁽²⁾</p>	<ul style="list-style-type: none"> • reviews the integrity of the financial reporting process • reviews the qualifications and independence of the independent auditors 	<p>7</p>

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Nancy H. Bechtle

and performance of the company's
internal audit function and independent
auditors

C. Preston Butcher⁽³⁾

Donald G. Fisher⁽²⁾

- retains sole authority to select independent auditors, approve audit fees and establish policies and procedures regarding pre-approval of fees for non-audit services
- reviews compliance with legal and regulatory requirements

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NAME OF COMMITTEE AND MEMBERS ⁽¹⁾ COMPENSATION	FUNCTIONS OF THE COMMITTEE	NUMBER OF MEETINGS IN 2004
Roger O. Walther, Chairman	<ul style="list-style-type: none"> determines the compensation of the Chief Executive Officer and executive officers 	7
Frank C. Herringer	<ul style="list-style-type: none"> reviews and approves executive compensation philosophy, programs for annual and long-term executive compensation and other executive programs 	
Paula A. Sneed		
Robert N. Wilson	<ul style="list-style-type: none"> has authority to grant options and other equity awards under stock incentive plans and bonus awards under executive incentive plans 	
NOMINATING AND CORPORATE GOVERNANCE	<ul style="list-style-type: none"> has authority to make cash awards under long-term incentive plans identifies individuals qualified to serve on the Board 	4
Frank C. Herringer, Chairman	<ul style="list-style-type: none"> 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 at the annual meeting to fill the seats of directors whose terms are expiring 	
Nancy H. Bechtle		
C. Preston Butcher		
Donald G. Fisher	<ul style="list-style-type: none"> leads the Board in its annual review of the Board's performance 	
Stephen T. McLin	<ul style="list-style-type: none"> develops corporate governance principles, policies and procedures and recommends their adoption by the Board 	
Paula A. Sneed		
Roger O. Walther		
Robert N. Wilson		

(1) In addition to the standing Audit, Compensation, and Nominating and Corporate Governance 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. Fisher are Audit Committee financial experts and independent under the listing standards of the New York Stock Exchange and the Nasdaq Stock Market and the rules of the Securities and Exchange Commission.

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(3) Mr. Butcher resigned from the Compensation Committee and was appointed to the Audit Committee, effective October 26, 2004.

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THE BOARD OF DIRECTORS

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.abouschwab.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

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Compensation Committee (the members of which are listed in the table in the Board and Committee Meetings section) is or was a former 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 2004.

DIRECTOR COMPENSATION

All Directors

All directors are reimbursed their expenses for attending Board and committee meetings.

Employee Directors

Directors who are also employees receive no additional compensation for their service as directors.

Non-Employee Directors

Non-employee directors received the following retainers and fees in 2004:

Non-Employee Director Retainers and Fees

Annual retainer	\$ 45,000
Attendance fee for each Board meeting	\$ 2,800
Attendance fee for each Board committee meeting held on the same day as a Board meeting	\$ 500
Attendance fee for each Board committee meeting held on a day other than a Board meeting	\$ 2,000
Additional annual retainer for service as a Board committee chairperson	\$ 10,000

Non-employee directors also are entitled to receive non-discretionary equity grants under the 2004 Stock Incentive Plan, which was approved by stockholders in May 2004. In 2004, non-employee directors were entitled to grants as follows:

Non-Employee Director Equity Grants

Annual grant of options	5,000 options
Annual grant of restricted stock	5,242 shares
Initial grant of options for new directors	5,000 options

Non-employee director equity grants are subject to the following terms and conditions:

- Annual grants of options and restricted stock vest over the three-year period following the date of grant and become 100% vested in the event of the non-employee director's death, disability or retirement. Initial grants of options (when a director joins the Board) are fully vested on the date of the grant.
- The number of shares for the annual grant of restricted stock is determined by dividing \$50,000 by the average of the high and low market prices of common stock on the grant date.
- Each stock option is designated as a non-qualified stock option and has an exercise price equal to the fair market value of common stock on the date of the grant.

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THE BOARD OF DIRECTORS

- Each stock option expires on the earliest of (1) the date ten years after the date of grant, (2) the date three months after termination of service for any reason other than death, disability or retirement, (3) the date one year after termination of service because of death or disability, or (4) the date two years after termination of service because of retirement.

If the amendment to the 2004 Stock Incentive Plan is approved by the stockholders, non-employee directors will receive an initial grant of options on 10,000 shares of common stock. The annual, automatic grants to non-employee directors will consist of (i) options on 5,000 shares of common stock and (ii) a number of restricted shares of common stock determined by dividing \$60,000 by the fair market value of a share of common stock on the grant date.

Non-employee directors also may participate in the Directors' Deferred Compensation Plan. This plan allows them to defer receipt of all or a portion of their retainers and fees and, at their election, either to:

(1) receive stock options that:

- have a fair value equal to the amounts deferred (as determined under the valuation method used by the company to value stock options at the time of the deferral),
- have an option exercise price equal to the fair market value of common stock on the date the deferred amount would have been paid, and
- vest immediately upon grant and generally expire ten years after the grant date,

- or -

(2) invest the deferred amount in restricted stock units that are funded by an equivalent number of shares of common stock to be held in a trust and distributed to the director when he or she ceases to be a director.

We also have stock ownership guidelines for non-employee directors. Under our guidelines, each non-employee director should own company stock with a fair market value equal to or exceeding \$200,000. A new director should reach this target level upon completing five years of service. Once this target level is reached, the director is deemed to meet this target so long as he or she continues to hold an equivalent number of shares as on the date the target level was met.

Shares owned outright, deferred shares and restricted stock and stock units are counted in determining the threshold under our stock ownership guidelines. In addition, each non-employee director is expected to hold for at least one year 50% of the net after-tax value of company stock acquired through the exercise of a stock option or the vesting of restricted shares. Thereafter, the shares may be sold as of any date the target ownership level is met.

DIRECTOR INDEPENDENCE

We have considered the independence of each member of the Board. To assist us in our determination, we reviewed New York Stock Exchange and Nasdaq Stock Market standards and adopted general guidelines for independence.

A director of the company will be considered independent if the director has no material relationships with the company and no other relationships that, in the opinion of the Board, would interfere with the director's exercise of independent judgment. The Board will consider broadly all relevant facts and circumstances regarding a director's relationships with the company as well as these independence guidelines when making a determination whether or not a director is independent.

A director with one or more of the following relationships with the company or its subsidiaries will not be considered independent if, within the last three years:

- The director has been an employee or an affiliated person, or an immediate family member has been an executive officer who performs a policy making function.

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THE BOARD OF DIRECTORS

- The director received, or immediate family member (other than an immediate family member employed in a non-executive officer position) received, more than \$60,000 per year in direct compensation (other than director and committee fees and pension or other forms of deferred compensation for prior service).
- The director has been affiliated with or employed by, or immediate family member has been affiliated with or employed in a professional capacity by, a present or former internal or external auditor.
- The director has been employed, or immediate family member has been employed, as an executive officer of another company where any of the present executives of the company or its subsidiaries have served on that company's compensation committee.
- The director has been an executive officer, partner, controlling shareholder or an employee, or immediate family member has been an executive officer, partner, or controlling shareholder of a company that makes payments to, or receives payments from, the company or its subsidiaries for property or services in an amount which, in the current or any of the past three fiscal years, exceeds the greater of \$200,000, or 2% of such other company's consolidated gross revenues.

In addition, a director with one or more of the following relationships will not be considered independent if:

- The director obtains brokerage, banking, or related financial services on terms more favorable to those offered to clients or employees of the company or its subsidiaries.
- The director serves on the board of a charitable or not for profit organization that, during the director's service on the board of the charitable organization, receives donations from the company, its subsidiaries, or the Charles Schwab Foundation that exceeds in a fiscal year the greater of 1% of the organization's consolidated gross revenues or \$100,000.
- The director receives a loan from the company or its subsidiaries (not subject to the grandfathering provisions of the Sarbanes-Oxley Act of 2002), unless:
 - (1) it is a home improvement and manufactured home loan (as defined in Section 5 of the Home Owners' Loan Act), consumer credit (as defined in Section 103 of the Truth in Lending Act), or any extension of credit under an open end credit plan (as defined in Section 103 of the Truth in Lending Act), or a charge card (as defined in Section 127(c)(4)(E) of the Truth in Lending Act), and such loan is:
 - made in the ordinary course of the consumer credit business,
 - of the type that is generally made available to the public, and
 - made on market terms, or terms that are no more favorable than those to the general public for such extension of credit,

- or -

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- (2) it is made or maintained by a subsidiary of the company that is an insured depository institution (as defined in Section 3 of the Federal Deposit Insurance Act) if the loan is subject to the insider lending restrictions of Section 22(h) of the Federal Reserve Act.
- The director is an Audit Committee member and, during his or her service as an Audit Committee member, has accepted any consulting, advisory, or other compensatory fee from the company or its subsidiaries other than for service as a director or Board committee member.

Based on our guidelines and New York Stock Exchange and Nasdaq Stock Market corporate governance standards, we have determined that the following directors are independent: Nancy H. Bechtle, C. Preston Butcher, Donald G. Fisher, Frank C. Herringer, Stephen T. McLin, Paula A. Sneed, Roger O. Walther, and Robert N. Wilson.

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THE BOARD OF DIRECTORS

DIRECTOR NOMINATIONS

The Nominating and Corporate Governance Committee is composed entirely of independent directors as determined by the Board of Directors in accordance with its independence guidelines and the listing standards of the New York Stock Exchange and the Nasdaq Stock Market. The standards that the Board uses to determine whether a director is independent are described in the Director Independence section.

The Board of Directors has adopted a written Nominating and Corporate Governance Committee charter. The charter is available on our website at www.abotschwab.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. Mr. Herringer, Mr. McLin, Mr. Schwab and Mr. Walther have been previously elected by stockholders as directors. Mr. Wilson was appointed to fill a vacancy on the Board in 2003, and this is the first year that he is a candidate for stockholder election to the Board. The Nominating and Corporate Governance Committee, comprised of independent directors, recommended Mr. Wilson's nomination as a candidate.

The Nominating and Corporate Governance Committee will consider candidates nominated by stockholders for next year's meeting if the nomination is made in writing no later than November 30, 2005. Stockholder nominations must be made in accordance with the procedures outlined in the company's bylaws and must be addressed to:

Assistant Corporate Secretary

The Charles Schwab Corporation

Mailstop SF120KNY-04

101 Montgomery Street

San Francisco, California 94104

The bylaws are available on our website at www.abotschwab.com/governance.

Director Qualifications

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The qualifications for directors are described in our Corporate Governance Guidelines and the guidelines for evaluating director nominees in the Nominating and Corporate Governance Committee's charter, each of which is available on our 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 Nominees for Director

The Nominating and Corporate Governance Committee reviews annually 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 nominations. 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 nominees.

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:

Assistant Corporate Secretary

The Charles Schwab Corporation

Mailstop SF120KNY-04

101 Montgomery Street

San Francisco, California 94104

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. For example, complaints regarding accounting, internal controls or auditing will be forwarded to the chair of the Audit Committee and communications to the independent directors will be forwarded to the chair of the Nominating and Corporate Governance Committee. 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.

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INDEPENDENT AUDITORS

AUDIT COMMITTEE REPORT

The Audit Committee is composed entirely of independent directors as determined by the Board of Directors in accordance with its independence guidelines and the listing standards of the New York Stock Exchange and the Nasdaq Stock Market. The guidelines that the Board uses to determine whether a director is independent are described in the Director Independence section. None of the directors on this committee 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 financially literate. The Board has determined that Donald G. Fisher 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.abouschwab.com/governance. We last attached a copy of the charter to our proxy statement in 2003.

The committee has met and held discussions with management and the independent auditors. As part of this process, the committee has:

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

Based on the review and discussions referred to above, the 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, 2004, for filing with the SEC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Stephen T. McLin, Chairman

Nancy H. Bechtle

C. Preston Butcher

Donald G. Fisher

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INDEPENDENT AUDITORS

AUDITOR SELECTION AND FEES*Auditor Selection*

The Audit Committee has selected Deloitte & Touche LLP and the member firms of Deloitte Touche Tohmatsu as the company's independent auditors for the 2005 fiscal year. Deloitte has served as the company's auditors since its inception. We expect representatives of Deloitte to attend the annual meeting of stockholders. 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 (for fiscal year ended December 31, 2004), and reviews of the consolidated financial statements included in quarterly reports on Form 10-Q were:

Fiscal year ended December 31:

2003	\$ 4.7 million
2004	\$ 6.5 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:

2003	\$ 2.8 million
2004	\$ 1.6 million

Tax Fees

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In 2004, the Audit Committee limited tax fees billed by Deloitte to tax return review, preparation and compliance. The aggregate fees billed by Deloitte for these services were:

Fiscal year ended December 31:

2003	\$	0.3 million
2004	\$	0.4 million

All Other Fees

All other products and services not included in audit fees, audit-related fees, and tax fees in 2003 included services for analysis of the company's customer relationship management system and assistance with business interruption insurance. The aggregate fees billed by Deloitte for these services were:

Fiscal year ended December 31:

2003	\$	0.3 million
2004		None

In addition to the fees above, audit fees in the amount of \$1.6 million were billed by Deloitte with respect to mutual funds managed by subsidiaries of The Charles Schwab Corporation. Ongoing mutual fund fees are included in the expenses of the mutual funds and are borne by the stockholders of the funds. Accordingly, they are not included in the expenses of The Charles Schwab Corporation.

Pre-Approval Policies and Procedures

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

- any contingent fee arrangement,
- bookkeeping or other services relating to accounting records or financial statements,

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INDEPENDENT AUDITORS

- broker-dealer services,
- actuarial services,
- management and human resource functions, including executive search services,
- 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 contains lists of non-audit services, contained in 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. Those 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 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.

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Services not listed in one of the categories above require specific pre-approval from the Audit Committee. On an annual basis, the policy limits the fees related to other non-audit services performed by Deloitte 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 year 2004, the Audit Committee pre-approved 100% of the services performed by Deloitte relating to audit-related fees and tax fees.

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EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Membership and Responsibilities

The Compensation Committee is composed entirely of independent directors as determined by the Board of Directors in accordance with its independence guidelines and the listing standards of the New York Stock Exchange and the Nasdaq Stock Market. The guidelines that the Board uses to determine whether a director is independent are described in the Director Independence section.

Our committee is responsible for overseeing and administering the company's compensation programs for the Chairman and Chief Executive Officer and all other executive officers of the company. We report regularly to the Board regarding our activities. In carrying out our responsibilities, we have direct access to an independent and experienced compensation consultant who provides advice on existing and new executive compensation practices and arrangements. If you would like further information about the committee's membership and responsibilities, please refer to the Compensation Committee charter, which is available on the company's website at www.aboutschwab.com/governance.

Compensation Policies

The company's executive compensation philosophy is to link pay with performance and stockholder returns over the long term and to attract and retain key executives who are critical to the company's long-term success. Pay is linked to the company's long-term growth and stockholder returns by requiring that a significant portion of an executive's total compensation package be in the form of stock, stock-based incentives and cash incentives (under the Long-Term Incentive Plan) based exclusively on corporate long-term performance. Pay also is linked to the company's financial performance by requiring that executives' cash incentive compensation be subject to performance-based criteria with significant upside potential and downside risk.

When establishing salaries, bonus levels and long-term incentive and stock-based awards for executive officers, we consider the individual's role, responsibilities and performance during the past year, and the amount of compensation paid to executive officers in similar positions of peer group companies.

A fundamental objective is to provide executive officers with the opportunity to earn total compensation that is competitive with total compensation that peer companies provide to similarly situated executives. In making competitive comparisons, we engage an independent consultant to assist us in selecting the peer group of companies. The selection process for the peer group takes into account multiple factors including industry (with an emphasis on financial services), size, performance, leadership status in their industry and the extent to which the peer company competes with our company for executive talent.

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To further link pay with performance, we consider peer group data provided by our independent consultant to establish compensation targets that provide executive officers with total compensation that:

- exceeds the average amounts paid to similar executives of comparable companies in years in which the company achieves superior performance, and
- falls below the average amounts paid to similar executives of comparable companies in years in which the company fails to achieve superior performance.

Base Salary

Base salary is frequently a significant factor in attracting, motivating and retaining key executive officers. Accordingly, we annually review executive officers' base salaries and make appropriate adjustments based on performance in the previous year, internal pay relationships with other executives and average base salaries paid to executives of peer group companies. In

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EXECUTIVE COMPENSATION

2004, we modified our peer group of companies to be more closely aligned with our company's current size and business operations. Overall, our executive officers' base salaries are above the average base salaries paid to executives of the new peer group of companies. Our objective is to have the base salaries of our executive officers approximate the average base salaries of our new peer group over time.

Cash Bonuses

The bonus of the Chairman and Chief Executive Officer is calculated and paid in accordance with his stockholder-approved employment agreement under a pre-established corporate performance matrix. Bonuses for other executive officers are calculated and paid in accordance with the company's Corporate Executive Bonus Plan (CEBP).

Under the CEBP, we set a target bonus for each participant in the first quarter of each year expressed as a percentage of his or her base salary. The target bonus is based on a number of factors, including competitive market data and the recommendation of an independent compensation consultant. Awards may range from 0% to 350% of the target bonus based on corporate performance matrices that we adopt when we establish target bonuses for participants.

In 2004, we used after-tax profit margin and net revenue growth to determine corporate performance for purposes of calculating bonuses under the CEBP and under the employment agreement of the Chairman and Chief Executive Officer. To determine the annual bonus of Alan J. Weber Chairman and Chief Executive Officer of U.S. Trust, a subsidiary of the company, performance also was measured using pre-tax profit contribution of U.S. Trust.

For 2004, corporate performance was below the company's target goals, which resulted in the payment of bonuses that were approximately two-thirds of the annual target bonuses for all executive officers. We also awarded certain discretionary bonuses outside of the CEBP to two executive officers based on their individual performance in 2004. All bonuses for named executive officers are described in further detail in the Summary Compensation table, which follows this report.

Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) is designed to provide cash incentives to officers based strictly on the company's corporate performance. In 2004, we established a 3 1/2-year performance period beginning July 1, 2004. Cash incentives for this performance period will be based on the company's cumulative earnings per share from continuing operations over the performance period. If cumulative earnings per share exceed \$1.24, then cash incentive payments for the performance period will range between 50% of each officer's target cash award (where cumulative earnings per share reach \$1.25) and 400% of the officer's target cash award (where cumulative earnings per share reach \$2.70). If cumulative earnings per share do not exceed \$1.24 over the performance period, then cash incentive payments are entirely discretionary for the Committee and may be zero; however, such discretionary payments cannot exceed 49% of each officer's target cash award.

The LTIP award granted to each of the company's named executive officers in 2004 is set forth in the Long-Term Incentive Plan table, which follows this report.

Stock-Based Awards

A fundamental tenet of the company's compensation policy is that significant equity participation creates a vital long-term partnership between management and other stockholders. Significant equity participation by executive officers is encouraged through annual grants of stock-based awards and application of the company's stock ownership guidelines.

Stock-based awards to executive officers for 2004 consisted of stock options and restricted stock. To determine the size of awards, we reviewed competitive market data obtained from our independent consultant

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EXECUTIVE COMPENSATION

concerning levels of long-term compensation for executive officers of peer group companies.

The Board of Directors adopted stock ownership guidelines for executives in 2004. Under these guidelines, the Chief Executive Officer and Chairman should have an investment position in company stock equal to at least \$5 million. All other executive officers should have an investment position in company stock equal to at least \$1.5 million. These ownership guidelines should be attained within five to seven years after the later of (i) establishment of the guidelines or (ii) after becoming an executive officer. Each executive officer also is expected to hold for at least one year 50% of the after-tax value of company stock acquired through the exercise of a stock option or the vesting of restricted shares.

As of March 21, 2005, directors and executive officers owned an aggregate of 260,737,905 shares (including restricted shares) and had the right to acquire an additional 21,697,187 shares upon the exercise of stock options or under the Directors' Deferred Compensation Plan.

Compensation of Chairman and Chief Executive Officer

The Chairman and Chief Executive Officer, Charles R. Schwab, is compensated in accordance with his stockholder-approved employment agreement, which is described in Exhibit B, as follows:

- Annual salary of \$900,000 subject to our annual review.
- Annual bonus based on pre-established performance targets and a formula-based matrix.

Mr. Schwab's bonus is computed as the amount of total cash compensation earned pursuant to the formula-based matrix, which we adopt in the first quarter of each year, minus his actual base salary paid during that year. The formula-based matrix is the sole basis for determining Mr. Schwab's annual bonus. For 2004, Mr. Schwab earned a bonus of \$4,448,000 according to the formula-based matrix. However, Mr. Schwab declined his bonus, and that amount was directed to bonuses for other employees and corporate charitable purposes.

We believe that Mr. Schwab's leadership is a vital factor to our corporate success. Specifically, we believe that:

- Mr. Schwab provides the leadership, vision and inspiration for innovation that has generated corporate growth and superior performance over the long term, and
-

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The overall strategic direction developed by Mr. Schwab is critical to enhancing the future long-term value of the company for its stockholders.

Former Executive Officers

We entered into a separation agreement with David S. Pottruck, who was replaced as Chief Executive Officer effective July 20, 2004. The terms and conditions of Mr. Pottruck's separation agreement are summarized in Exhibit D to this proxy statement. At the time of Mr. Pottruck's separation, we determined that the terms of his separation agreement were fair, within the range of competitive market practice and comparable to severance agreements of chief executive officers of similarly situated public companies. In making this determination, we considered the following factors:

- Mr. Pottruck's extended length of service with the company of over 21 years and his contributions to the company's success over those years.
- The absence of any traditional pension or supplemental executive retirement pension benefit for Mr. Pottruck, which is commonly provided to chief executive officers of publicly traded companies.
- Mr. Pottruck's decision to decline annual cash bonuses in the last two years and voluntarily relinquish stock options granted to him in 2000, 2001 and 2002.
- The salary continuation structure of the arrangement, which permits the company to enforce the non-compete, non-solicitation and non-disparagement provisions of the agreement.
- The severance benefits provided to former senior executives of the company.

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EXECUTIVE COMPENSATION

Mr. Pottruck received certain payments under his separation agreement during 2004, as set forth in the Summary Compensation Table that follows this report. As Chief Executive Officer, Mr. Pottruck received no compensation for performance in 2004, except salary of \$583,333. As noted in last year's report, Mr. Pottruck received a stock option grant of 425,000 shares of company stock in January 2004 for performance in 2003 in lieu of any cash award earned.

Lon Gorman, who served as Vice Chairman and President Schwab Institutional and Asset Management, resigned for good reason as of November 1, 2004. He received certain severance benefits pursuant to his employment agreement, which are set forth in the Summary Compensation Table following this report and further described in Exhibit C to this proxy statement.

Tax Limits on Executive Compensation

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 performance based and approved by the stockholders. We believe 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, the 2004 Stock Incentive Plan and Mr. Schwab's employment agreement, as amended, are designed to provide performance-based compensation and have been approved by stockholders. However, we believe that there are times when the benefit of the deduction is outweighed by other corporate objectives and strategic needs.

We will continue to monitor issues concerning the tax deductibility of executive compensation and will take appropriate action if we believe it is warranted. Since corporate objectives and strategic needs may not always be consistent with the requirements for full deductibility, we are prepared to use our discretion, if we believe it is appropriate, to enter into compensation arrangements or provide compensation under which payments may not be fully deductible, including under section 162(m).

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Roger O. Walther, Chairman

Frank C. Herringer

Paula A. Sneed

Robert N. Wilson

Table of Contents**EXECUTIVE COMPENSATION****SUMMARY COMPENSATION TABLE**

This table shows, for the last three fiscal years, compensation information for Charles R. Schwab, the company's Chairman and Chief Executive Officer, and the next four most highly compensated executive officers as of December 31, 2004. It also provides information for David S. Pottruck, who served as Chief Executive Officer of the company until July 2004, Lon Gorman, who served as Vice Chairman and President Schwab Institutional and Asset Management until November 2004, and Dawn Lepore, who served as Vice Chairman Technology, Operations and Administration until October 2004. We refer to each of these officers as a named executive officer.

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM ⁽¹⁾ COMPENSATION AWARDS			ALL OTHER COMPENSATION ⁽⁴⁾
		SALARY	BONUS	OTHER ANNUAL COMPENSATION ⁽²⁾	RESTRICTED STOCK AWARDS ⁽³⁾	SECURITIES UNDERLYING OPTIONS		
Charles R. Schwab ⁽⁵⁾								
CHAIRMAN AND CHIEF EXECUTIVE OFFICER	2004	\$900,000	0 ⁽⁶⁾		0	300,000		\$10,500
	2003	\$900,000	0 ⁽⁶⁾		0	0		0
	2002	\$883,334	0		0	1,300,000 ⁽⁷⁾		\$10,250
William L. Atwell								
EXECUTIVE VICE PRESIDENT AND PRESIDENT INDIVIDUAL INVESTOR ENTERPRISE	2004	\$596,667	\$564,553	\$807,099	0	273,723		\$10,500
	2003	\$560,833	\$412,929	\$520,192	\$2,908,786	0		0
	2002	\$512,000	\$250,000		0	220,000		\$10,250
Christopher V. Dodds								
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER	2004	\$550,000	\$640,769		0	291,971		\$10,500
	2003	\$543,333	\$329,973		\$2,662,496	0		0
	2002	\$528,458	\$325,000		0	250,000		\$10,250
Carrie E. Dwyer								
EXECUTIVE VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY	2004	\$480,000	\$613,455		0	228,103		\$10,500
	2003	\$480,000	\$322,600		\$2,285,980	0		0
	2002	\$426,500	\$234,744		\$186,400	100,000		\$10,250
Alan J. Weber								
EXECUTIVE VICE PRESIDENT AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, U.S. TRUST CORPORATION	2004	\$625,001	\$788,556		0	273,723		\$10,500
	2003	\$625,000	\$468,750		\$2,272,521	0		0
	2002	\$156,250	\$468,750		\$932,000	325,000		0
David S. Pottruck ⁽⁸⁾								
FORMER CHIEF EXECUTIVE OFFICER	2004	\$583,333	0	\$661,182	0	425,000		\$10,166,667
	2003	\$983,333	0 ⁽⁶⁾	\$138,703	\$2,500,006	1,417,100		0
	2002	\$883,334	0	\$149,934	0	1,300,000 ⁽⁷⁾		\$10,250
Lon Gorman ⁽⁹⁾								

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FORMER VICE CHAIRMAN	2004	\$541,538	\$325,656	\$62,545	0	0	\$14,345,495
	2003	\$590,000	\$1,220,917		\$2,787,491	0	0
	2002	\$586,017	\$1,000,000		0	300,000	\$10,250
Dawn G. Lepore ⁽¹⁰⁾	2004	\$617,791	\$360,058		0	0	\$845,253
	2003	\$618,333	\$409,066		\$3,033,781	0	0
	2002	\$613,617	\$400,942		0	300,000	\$10,250
FORMER VICE CHAIRMAN	2004						
	2003						
	2002						

(1) A column for LTIP payouts is not included because no payments could be made under the company's Long-Term Incentive Plan until 2007.

(2) For Mr. Atwell, this column includes:

relocation assistance in the following respective amounts during 2004 and 2003: \$219,281 and \$151,377,

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EXECUTIVE COMPENSATION

personal use of corporate aircraft in the following respective amounts during 2004 and 2003: \$252,828 and \$90,303 (amounts based on marginal operating cost), and

tax reimbursement in the following respective amounts during 2004 and 2003: \$190,734 and \$128,491.

The company previously reported \$292,041 in Other Annual Compensation for Mr. Atwell for 2003. During 2003 and 2004, Mr. Atwell's responsibilities changed with his assumption of management of the Individual Investor Enterprise and the winding up of businesses for which he was responsible on the East Coast. The company has reclassified Mr. Atwell's expenses in 2003 and 2004 for travel between residences he maintained on the East Coast and certain business locations (including travel on company aircraft), as personal, rather than business, expenses.

For Mr. Pottruck, this column includes:

personal travel aboard company aircraft in the following respective amounts during 2004, 2003 and 2002: \$83,868, \$60,870, and \$82,717 (amounts based on marginal operating cost),

personal office space for up to 12 months after Mr. Pottruck's replacement as Chief Executive Officer in 2004 at an aggregate incremental cost of up to \$84,262,

personal secretarial assistance for up to 12 months after Mr. Pottruck's replacement in 2004 at an aggregate incremental cost of up to \$142,704,

installation costs for home security systems in 2004 in the amount of \$152,733,

financial planning in the amount of \$35,342 in 2002, and

tax reimbursement in the following respective amounts for 2004, 2003 and 2002: \$84,447, \$59,131, and \$27,621.

For Mr. Gorman, this column includes:

tax reimbursement in the amount of \$62,545 for 2004.

- (3) This column shows the market value of performance share and restricted stock awards on the date of grant for each named executive officer.

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The following chart shows the cumulative unvested restricted stock and performance shares held by each named executive officer as of December 31, 2004 based on the closing price of common stock on that date (\$11.96).

	Number of Shares	Year-End Value
Mr. Schwab	0	0
Mr. Atwell	265,882	\$ 3,179,949
Mr. Dodds	243,882	\$ 2,916,829
Ms. Dwyer	228,555	\$ 2,733,518
Mr. Weber	310,258	\$ 3,710,686
Mr. Pottruck	365,498	\$ 4,371,356
Mr. Gorman	165,258	\$ 1,976,486
Ms. Lepore	0	0

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EXECUTIVE COMPENSATION

Holders of restricted stock have voting and dividend rights.

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

Matching contributions by the company under the SchwabPlan Retirement Savings and Investment Plan. During 2004 and 2002, the company's matching contributions were \$10,500 and \$10,250, respectively. Mr. Pottruck, Mr. Gorman and Ms. Lepore did not receive matching contributions for 2004.

In the case of Mr. Pottruck, severance pay consisting of 28 months' salary (\$2,333,333), 28 months' bonus (\$7,583,333), 2 months' sabbatical pay (\$166,667) and an additional \$83,334, paid in accordance with his separation agreement summarized in Exhibit D. All amounts were paid in a lump sum, except for \$3,966,667, which is paid in 30 monthly installments starting August 1, 2004.

In the case of Mr. Gorman, severance pay consisting of 36 months' salary (\$1,645,421), bonus (\$2,610,000) and an amount in lieu of continued medical and life insurance coverage (\$90,074), plus an additional payment of \$10 million pursuant to the termination provisions of his employment agreement summarized in Exhibit C. All amounts were paid in a lump sum.

In the case of Ms. Lepore, severance pay consisting of 16 months' salary (\$819,311) and continued medical coverage (\$25,942), provided under The Charles Schwab Severance Pay Plan. All amounts were paid in a lump sum.

- (5) Mr. Schwab has had an employment contract with the company since 1987. His current employment contract is described in Exhibit B to this proxy statement.
- (6) Mr. Schwab declined a recommended bonus for 2004. That amount was directed to bonuses for other employees and corporate charitable purposes.

Mr. Schwab and Mr. Pottruck each declined a recommended bonus for 2003 so that the amount declined would be available for bonuses for other employees.

- (7) In 2002, Mr. Schwab and Mr. Pottruck voluntarily relinquished all stock option grants granted to them in 2000, 2001 and 2002, a combined total of 5,432,000 underlying shares. Consequently, all of the options shown in the Securities Underlying Options column for 2002 have been canceled. The purpose of Mr. Schwab's and Mr. Pottruck's action was to support grants to other employees in an effort to motivate key employees and retain talent in the face of unprecedented business uncertainties, while minimizing the effect of dilution to stockholders.
- (8) Mr. Pottruck was replaced as Chief Executive Officer of the company, effective July 20, 2004, and entered into a Separation Agreement, which is described in Exhibit D, effective August 2, 2004.
- (9) Mr. Gorman resigned his position with the company for "good reason" as defined in his employment agreement on November 1, 2004. His employment agreement with the company contained termination provisions, which are described in Exhibit C.

- (10) Ms. Lepore's position with the company was eliminated on September 24, 2004, and she became eligible at that time for severance benefits under The Charles Schwab Severance Pay Plan.

Table of Contents**EXECUTIVE COMPENSATION****OPTIONS GRANTED IN 2004**

This table shows stock option grants to the named executive officers during 2004.

	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	INDIVIDUAL GRANTS			POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM ⁽³⁾	
		% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Charles R. Schwab	300,000 ⁽¹⁾	1.38%	\$ 13.76	1/20/14	\$ 2,510,560	\$ 6,442,797
William L. Atwell	273,723 ⁽²⁾	1.25%	\$ 9.155	9/30/11	\$ 1,566,388	\$ 3,984,233
Christopher V. Dodds	291,971 ⁽²⁾	1.34%	\$ 9.155	9/30/11	\$ 1,670,813	\$ 4,249,846
Carrie E. Dwyer	228,103 ⁽²⁾	1.05%	\$ 9.155	9/30/11	\$ 1,305,326	\$ 3,320,202
Alan J. Weber	273,723 ⁽²⁾	1.25%	\$ 9.155	9/30/11	\$ 1,566,388	\$ 3,984,233
David S. Pottruck	425,000 ⁽¹⁾	1.95%	\$ 13.76	1/20/14	\$ 3,556,627	\$ 9,127,296
Lon Gorman	0					
Dawn G. Lepore	0					

(1) These options were granted on January 20, 2004 under the company's 2001 Stock Incentive Plan and fully vested on July 20, 2004. However, the exercise of the options is restricted to the earlier of three years from the grant date or the date of the reporting person's retirement. The sale of shares under this option grant must be three years or later from the grant date.

(2) These options were granted on September 30, 2004 under the company's 2004 Stock Incentive Plan and vested 40% on December 15, 2004 and will vest 20% on December 15, 2005, 2006 and 2007.

(3) Based on SEC rules, we use a 5% and 10% assumed rate of appreciation over the option term. This does not represent the company's estimate or projection of the future common stock price. If common stock does not appreciate above the exercise price, the named executive officer will receive no benefit from the options.

Table of Contents**EXECUTIVE COMPENSATION****FISCAL YEAR-END OPTION VALUES****AND AGGREGATED OPTION EXERCISES IN 2004**

This table shows stock option exercises and the value of unexercised stock options held by the named executive officers as of December 31, 2004.

	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$) ⁽¹⁾	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END ⁽²⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Charles R. Schwab	0	0	4,837,500	300,000	\$ 27,169,002	0
William L. Atwell	0	0	435,959	345,164	\$ 451,538	\$ 713,288
Christopher V. Dodds	0	0	859,044	404,933	\$ 1,229,950	\$ 706,754
Carrie E. Dwyer	0	0	710,612	242,392	\$ 1,747,267	\$ 514,259
Alan J. Weber	0	0	253,239	345,484	\$ 675,472	\$ 911,491
David S. Pottruck	3,867,447	\$ 26,973,046	5,276,434	2,742,100	\$ 13,916,677	\$ 4,364,668
Lon Gorman	0	0	995,503	261,000	\$ 977,430	\$ 263,685
Dawn G. Lepore	28,710	\$ 145,143	1,345,196	0	\$ 2,690,226	0

(1) The amounts in this column are calculated as follows:

If upon exercising the stock options, the named executive officer kept the shares he or she acquired, then by averaging the high and low market prices of common stock on the date of exercise to obtain the market price, or

If upon exercising the stock options, the named executive officer sold the shares he or she acquired, then by using the sale price as the market price, then

- subtracting the option exercise price from the market price to obtain the value realized per share, and
- multiplying the value realized per share by the number of shares acquired upon exercise.

Accordingly, the amounts in this column may not represent amounts actually realized by the named executive officers.

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(2) The amounts in this column are calculated by:

subtracting the option exercise price from the company's December 31, 2004 average market price (\$11.96) per share to get the average value per option, and

multiplying the average value per option by the number of exercisable or unexercisable options, as applicable.

The amounts in this column may not represent amounts that will actually be realized by the named executive officers.

Table of Contents**EXECUTIVE COMPENSATION****SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The following table summarizes information as of December 31, 2004 with respect to equity compensation plans approved and not approved by stockholders (shares in millions):

PLAN CATEGORY	(A) SHARES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(B) WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(C) SHARES AVAILABLE FOR FUTURE ISSUANCE (EXCLUDING SHARES IN COLUMN A)
Equity compensation plans approved by stockholders	101 ⁽¹⁾	\$ 13.76 ⁽²⁾	37
Equity compensation plans not approved by stockholders ⁽³⁾	33 ⁽⁴⁾	\$ 18.28	0
Total	134	\$ 14.88	37 ⁽⁵⁾

- (1) Consists of 100,075,732 stock options, 365,498 performance shares and 237,633 restricted stock units outstanding as of December 31, 2004 under the company's 1987 Stock Option Plan, 1987 Executive Officer Stock Option Plan, and the 1992, 2001 and 2004 Stock Incentive Plans. Although stock-based awards are still outstanding under the 1987 Stock Option Plan, the 1987 Executive Officer Stock Option Plan, and the 1992 and 2001 Stock Incentive Plans, no new awards may be granted under these prior plans. All future stock-based awards will be granted under the 2004 Stock Incentive Plan, which was approved by stockholders in May 2004.
- (2) The weighted average exercise price does not take into account awards that have no exercise price such as performance shares and restricted stock units.
- (3) In connection with its acquisition of CyBerCorp, Inc. in 2000, the company assumed stock options granted under the CyBerCorp, Inc. 1996 Stock Incentive Plan. The company did not reserve the right to make further grants under that plan. As of December 31, 2004, 31,251 shares were issuable upon exercise of these assumed options, and the assumed options had a weighted-average exercise price of \$14.14.
- (4) Represents shares of common stock issuable upon exercise of outstanding options under the company's Employee Stock Incentive Plan. Grants under this plan were made to employees other than officers and directors and, accordingly, did not require stockholder approval prior to amendments to the listing standards of the New York Stock Exchange and the Nasdaq Stock Market. No new shares are available under this plan for future grants.
- (5) Represents stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock and performance units that may be awarded under the 2004 Stock Incentive Plan.

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EXECUTIVE COMPENSATION

MATERIAL FEATURES OF EMPLOYEE STOCK INCENTIVE PLAN

Purpose. The Board approved the Employee Stock Incentive Plan to promote the long-term success of the company and the creation of incremental stockholder value by (a) encouraging employees to focus on long-range objectives, (b) encouraging the attraction and retention of employees with exceptional qualifications and (c) linking employee and stockholder interests. The plan seeks to achieve this objective by providing for grants of options and restricted stock to employees. All or a portion of the shares issuable under the plan may be granted in the form of options or restricted stock.

Option Grants. Options granted under the plan allow employees to purchase shares of common stock at an exercise price of not less than 100% of the fair market value of a share on the grant date. Options become exercisable and expire within the times and upon the events determined by the Compensation Committee or by persons to whom the committee may delegate such responsibility. The exercise price of options must be paid in cash or, if permitted by the committee or its delegates, by the surrender of shares of common stock valued at their fair market value on the date when the new shares are purchased, or by the proceeds from a same-day sale commitment.

Restricted Stock Grants. Restricted stock becomes vested, in full or in installments, upon the satisfaction of certain conditions established by the Compensation Committee or its delegates.

Effect of Change in Control. At the time of granting options or restricted stock, the Compensation Committee or its delegates may determine that the options or restricted stock shall become fully exercisable or vested if a change in control occurs with respect to the company.

Table of Contents**EXECUTIVE COMPENSATION****LONG-TERM INCENTIVE PLAN AWARDS IN 2004**

This table shows awards made under the company's Long-Term Incentive Plan to the named executive officers during the last fiscal year. It shows cash amounts that would be payable after the 3½-year performance period from July 1, 2004 through December 31, 2007 with respect to the cash component of long-term compensation awards for 2004, assuming the company's cumulative earnings per share from continuing operations over that period reach a level that would result, alternatively, in threshold awards, target awards or maximum awards under the Long-Term Incentive Plan.

After the end of the 3½-year performance period, units are valued according to a pre-established table that refers to the company's cumulative earnings per share from continuing operations over the performance period. Units are paid in cash and vest over a 3¼-year period of continuous employment. Units may become 100% vested upon retirement, death or disability.

NAME	NUMBER OF SHARES, UNITS OR OTHER RIGHTS	PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT	ESTIMATED FUTURE PAYOUTS UNDER NON-STOCK PRICE-BASED PLANS		
			THRESHOLD	TARGET	MAXIMUM
Charles R. Schwab	0				
William L. Atwell	750,000	2004 - 2007	\$ 375,000	\$ 750,000	\$ 3,000,000
Christopher V. Dodds	800,000	2004 - 2007	\$ 400,000	\$ 800,000	\$ 3,200,000
Carrie E. Dwyer	625,000	2004 - 2007	\$ 312,500	\$ 625,000	\$ 2,500,000
Alan J. Weber	750,000	2004 - 2007	\$ 375,000	\$ 750,000	\$ 3,000,000
David S. Pottruck	0				
Lon Gorman	0				
Dawn G. Lepore	0				

Table of Contents**PRINCIPAL STOCKHOLDERS**

This table shows common stock that is beneficially owned by the directors, the named executive officers and owners of 5% or more of the outstanding company common stock, as of March 21, 2005.

AMOUNT AND NATURE OF SHARES BENEFICIALLY OWNED

NAME	SHARES OWNED ⁽¹⁾	RIGHT TO ACQUIRE ⁽²⁾	SHARES TO BE ACQUIRED UNDER THE DIRECTORS DEFERRED COMPENSATION PLAN ⁽³⁾	RESTRICTED STOCK ⁽⁴⁾	PERCENT OF OUTSTANDING SHARES
Charles R. Schwab ⁽⁵⁾	249,783,345	4,837,500	0	0	19.37%
Nancy H. Bechtle	223,131	122,243	486	9,205	*
C. Preston Butcher ⁽⁶⁾	1,113,325	163,920	24,108	9,205	*
Donald G. Fisher ⁽⁷⁾	4,561,881	43,710	0	9,205	*
Frank C. Herringer ⁽⁸⁾	96,856	89,305	32,597	9,205	*
Stephen T. McLin ⁽⁹⁾	156,690	92,638	26,240	9,205	*
Paula A. Sneed	10,366	26,056	20,075	9,205	*
Roger O. Walther ⁽¹⁰⁾	222,351	75,135	24,252	9,205	*
Robert N. Wilson	67,136	23,730	28,391	9,205	*
David B. Yoffie	3,320	8,750	0	9,205	*
William L. Atwell	103,379	452,209	0	245,255	*
Christopher V. Dodds	362,286	927,794	0	223,255	*
Carrie E. Dwyer	74,299	724,362	0	213,703	*
Alan J. Weber	49,505	253,239	0	285,505	*
David S. Pottruck ⁽¹¹⁾	144,047	8,493,534	0	365,498	*
Lon Gorman	206,692	1,070,503	0	140,505	*
Dawn G. Lepore	157,608	1,324,707	0	0	*
Directors and Current Executive Officers as a Group (23 Persons) ⁽¹²⁾	258,481,474	21,541,038	156,149	2,256,431	21.21%

* Less than 1%

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PRINCIPAL STOCKHOLDERS

- (1) Includes shares for which the named person has sole voting and investment power, has shared voting and investment power with his or her spouse, or holds in an account under The SchwabPlan Retirement Savings and Investment Plan.

Excludes shares that may be acquired through stock option exercises or are restricted stock holdings.

- (2) Shares that can be acquired through stock option exercises through May 19, 2005.
- (3) Shares to be acquired under the terms of Directors' Deferred Compensation Plan in connection with service on the Board of Directors of the company or U.S. Trust Corporation.
- (4) Performance shares or shares subject to a vesting schedule, forfeiture risk and other restrictions.
- (5) Includes 7,977,765 shares held by Mr. Schwab's spouse, 44,803,958 shares held by a limited liability company and the following shares for which Mr. Schwab disclaims beneficial ownership: 13,211,185 shares held by a non-profit public benefit corporation established by Mr. Schwab, and 6,000 shares held in a trust for which Mr. Schwab acts as trustee.

Includes the following shares for which Mr. Schwab may be deemed to have shared voting and investment power but for which he disclaims beneficial ownership: 1,955,195 shares held by investment companies and managed by a wholly-owned subsidiary of the company.

Mr. Schwab's address is c/o The Charles Schwab Corporation, 101 Montgomery Street, San Francisco, California 94104.

- (6) Includes 278,569 shares held by Mr. Butcher's spouse.
- (7) Includes 390,000 shares held by a non-profit public benefit corporation for which Mr. Fisher has shared voting and investment power but for which he disclaims beneficial ownership.
- (8) Includes 50,625 shares held by Mr. Herringer's spouse.
- (9) Includes 14,018 shares held by a non-profit public benefit corporation established by Mr. McLin, but for which he disclaims beneficial ownership.
- (10) Includes 27,256 shares held by Mr. Walther's spouse.
- (11) Includes 71,361 shares held in trusts for which Mr. Pottruck acts as trustee.

(12) In addition to the officers and directors named in this table, nine other executive officers are members of this group.

Table of Contents**PERFORMANCE GRAPH**

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

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
The Charles Schwab Corporation	\$ 100	\$ 111	\$ 61	\$ 43	\$ 47	\$ 48
Dow Jones U.S. Investment Services Index	\$ 100	\$ 124	\$ 95	\$ 70	\$ 99	\$ 107
Standard & Poor's 500 Index	\$ 100	\$ 91	\$ 80	\$ 62	\$ 80	\$ 89

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based on its records and other information, the company believes that during 2004 all filings with the SEC by its officers, directors and 10% stockholders timely complied with requirements for reporting ownership and changes in ownership of common stock under Section 16(a) of the Securities Exchange Act of 1934.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The directors identified below had the following relationships with the company in 2004:

- Stephen T. McLin, a director, has a son, Stephen D. McLin, who was employed in a non-officer position of Specialist, Technical Product Development during 2004 (and presently). Mr. McLin's son earned aggregate compensation of approximately \$68,000 during 2004.
- Charles R. Schwab, the company's Chairman, has a daughter, Carolyn (Carrie) Schwab Pomerantz, who was employed as President of the Charles Schwab Foundation during 2004 (and presently). Mr. Schwab's daughter earned aggregate compensation of approximately \$250,000 during 2004. She also received a grant of 18,249 stock options and an award of long-term incentive plan units with a target value of \$50,000 during the year.

Some directors, executive officers 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, executive officers and their affiliates are made in the ordinary course of business and to the extent permitted by the Sarbanes-Oxley Act of 2002 (and by our independence guidelines for directors determined to be independent). Such transactions are on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectibility or present other unfavorable features.

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INFORMATION ABOUT VOTING PROCEDURES

How is my vote counted?

You may vote either for each director nominee or withhold your vote from any one or more of the nominees.

You may vote for or against or abstain from voting on the proposal for the amendment to the 2004 Stock Incentive Plan, the amendment to the Corporate Executive Bonus Plan, and the stockholder proposal regarding terms of directors. If you abstain from voting on these proposals, it will have the same effect as a vote against the proposal.

If you provide your voting instructions on your proxy, your shares will be voted:

- as you instruct, and
- according to the best judgment of Mr. Schwab if a proposal comes up for a vote at the meeting that is not on the proxy.

If you do not indicate a specific choice on the proxy you submit, your shares will be voted:

- for the five named nominees for directors,
- for the approval of the amendment to the 2004 Stock Incentive Plan,
- for the approval of the amendment to the Corporate Executive Bonus Plan,
- against the stockholder proposal regarding terms of directors, and
- according to the best judgment of Mr. Schwab if a proposal comes up for a vote at the meeting that is not on the proxy.

What if I change my mind after I submit my proxy?

You may revoke your proxy and change your vote by:

- signing a proxy card with a later date and returning it before the polls close at the meeting,
- voting by telephone or on the Internet before 12:00 p.m., Central time, on May 18, 2005, or
- voting at the meeting.

How many votes must the director nominees receive to be elected as directors?

Because five directors are to be elected at the annual meeting, the five individuals receiving the highest number of votes for election will be elected.

What happens if a director nominee is unable to stand for election?

The Board may reduce the number of directors or select a substitute nominee. In the latter case, if you have submitted your proxy, Charles R. Schwab can vote your shares for a substitute nominee. He cannot vote for more than five nominees.

How many votes are needed for the approval of the amendment to the 2004 Stock Incentive Plan, the amendment to the Corporate Executive Bonus Plan, and the stockholder proposal?

The amendment to the 2004 Stock Incentive Plan, the amendment to the Corporate Executive Bonus Plan and the stockholder proposal will be approved if a majority of the shares present at the meeting in person or by proxy and entitled to vote on the proposal vote for approval. An abstention will have the effect of a vote against the proposal. A broker non-vote will be treated as not being entitled to vote on the proposal and will not be counted for purposes of determining whether the proposal has been approved.

What is a broker non-vote ?

A broker non-vote occurs when a brokerage firm holding shares in street name for a beneficial owner does not vote on a proposal because the broker has not received instructions from the beneficial owner and does not have discretionary voting power with respect to the proposal.

What is the effect of not providing voting instructions if my shares are held in street name?

Brokerage firms have authority to vote clients' unvoted shares on some routine matters. When a brokerage

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INFORMATION ABOUT VOTING PROCEDURES

firm votes its clients' unvoted shares on routine matters, these shares are counted to determine if a quorum exists to conduct business at the meeting. A brokerage firm cannot vote clients' unvoted shares on non-routine matters, which results in a broker non-vote.

The company's proposals concerning the election of directors and the approval of the amendment to the Corporate Executive Bonus Plan are considered routine matters, but the proposal concerning the approval of the amendment to the 2004 Stock Incentive Plan and the stockholder proposal are not.

As a brokerage firm, Charles Schwab & Co., Inc. may vote its clients' unvoted shares on routine matters. However, as the company's subsidiary, when it is voting on company proposals, it can vote unvoted company shares held in brokerage accounts only in the same proportion as all other stockholders vote.

If you have a stockbroker or investment advisor, they may be able to vote your shares depending on the terms of the agreement you have with them.

What is the effect of not submitting my proxy if my shares are held in a retirement plan?

A purchasing agent under a retirement plan also may be able to vote a participant's unvoted shares. For example, if you are a participant in The SchwabPlan Retirement Savings and Investment Plan, the plan's purchasing agent, under certain circumstances, can vote your shares. Specifically, the purchasing agent will vote shares you hold under the Employee Stock Ownership Plan component of The SchwabPlan Retirement Savings and Investment Plan if the purchasing agent does not receive voting instructions from you. The purchasing agent will vote your unvoted shares held under the ESOP component of the overall plan in the same proportion as all other plan participants vote their shares held under the ESOP component of the overall plan.

What does it mean if I receive more than one proxy card?

It means that you have multiple accounts at the transfer agent or with stockbrokers. Please complete and submit all proxies to ensure that all your shares are voted.

Unless you need multiple accounts for specific purposes, it may be less confusing if you consolidate as many of your transfer agent or brokerage accounts as possible under the same name and address.

Is my vote kept confidential?

Proxies, ballots and voting tabulations identifying stockholders are kept confidential by our transfer agent and will not be disclosed except as may be necessary to meet legal requirements.

Where do I find voting results of the meeting?

We will announce preliminary voting results at the annual meeting. We will publish the final results in our quarterly report on Form 10-Q for the second quarter of 2005. You may access a copy electronically on our website at www.abouschwab.com/investor by clicking on Financials & SEC Filings or through the SEC's electronic data system called EDGAR at www.sec.gov. You may also obtain a copy by contacting our Investor Relations Hotline at (415) 636-2787.

Voting results are tabulated and certified by our transfer agent, Wells Fargo Bank, N.A.

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INFORMATION ABOUT THE PROXY STATEMENT AND PROPOSALS

Who pays the cost for proxy solicitation?

The company is paying for distributing and soliciting proxies. As a part of this process, the company reimburses brokers, nominees, fiduciaries and other custodians for reasonable fees and expenses in forwarding proxy materials to stockholders. The company is not using an outside proxy solicitation firm this year, but employees of the company or its subsidiaries may solicit proxies through mail, telephone, the Internet or other means. Employees do not receive additional compensation for soliciting proxies.

How do I submit a stockholder proposal for next year's annual meeting?

If you want us to consider including a proposal in our proxy statement next year, you must deliver it to the Corporate Secretary at our principal executive office no later than November 30, 2005. The company's bylaws contain specific procedural requirements regarding a stockholder's ability to nominate a director or submit a proposal to be considered at a meeting of stockholders. The bylaws are available on our website at www.abotschwab.com/governance. In addition, you may obtain a copy of our bylaws by contacting:

Assistant Corporate Secretary

The Charles Schwab Corporation

Mailstop SF120KNY-04

101 Montgomery Street

San Francisco, California 94104

(415) 636-3087

For next year's annual meeting of stockholders, the persons appointed by proxy to vote stockholders' shares will vote those shares according to their best judgment on any stockholder proposal the company receives after March 21, 2006.

What is householding ?

Householding means that we deliver a single set of proxy materials to households with multiple stockholders, provided such stockholders give their affirmative or implied consent and certain other conditions are met.

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Some households with multiple stockholders already may have provided the company with their affirmative consent or given a general consent to householding. We will provide only one set of proxy materials to each such household, unless we receive contrary instructions.

We will promptly deliver separate copies of our proxy statement and annual report at the request of any stockholder who is in a household that participates in the householding of the company's proxy materials. You may call the Assistant Corporate Secretary at (415) 636-3087 or send your request to:

Assistant Corporate Secretary

The Charles Schwab Corporation

Mailstop SF120KNY-04

101 Montgomery Street

San Francisco, California 94104

If you currently receive multiple copies of the company's proxy materials and would like to participate in householding, please contact the Assistant Corporate Secretary at the above address.

What is meant by incorporation by reference ?

Incorporation by reference means that we refer to information that previously has been filed with the SEC, so the information should be considered as part of the filing you are reading. Based on SEC rules, the sections entitled Audit Committee Report, Compensation Committee Report on Executive Compensation, and Performance Graph specifically are not incorporated by reference into any other filings with the SEC.

You receive this proxy statement as part of the proxy materials for the annual meeting of stockholders. You may not consider this proxy statement as material for soliciting the purchase or sale of our company's common stock.

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INFORMATION ABOUT THE ANNUAL MEETING

How do I obtain tickets to the annual meeting?

Seating is limited and, therefore, admission to the annual meeting is by ticket only on a first-come, first-served basis. To request a ticket, you may either:

- go to www.schwabevents.com,
- write the Assistant Corporate Secretary at this address:

Assistant Corporate Secretary
The Charles Schwab Corporation
Mailstop SF120KNY-04
101 Montgomery Street
San Francisco, California 94104,

- or -

- call the Assistant Corporate Secretary at (415) 636-3087.

How do I access the webcast of the annual meeting?

For information on how to access the real-time webcast of the annual meeting, go to www.schwabevents.com.

By Order of the Board of Directors,

CARRIE E. DWYER

EXECUTIVE VICE PRESIDENT,

GENERAL COUNSEL AND

CORPORATE SECRETARY

MARCH 30, 2005

SAN FRANCISCO, CALIFORNIA

Table of Contents**EXHIBIT A****DESCRIPTION OF THE 2004 STOCK INCENTIVE PLAN**

The company's stockholders approved the 2004 Stock Incentive Plan at the 2004 Annual Meeting of Stockholders. The Board of Directors recommends an amendment to the plan to change stock-based awards to non-employee directors.

The 2004 Plan permits the grant of stock options, restricted stock, restricted stock units, performance shares, performance units, stock appreciation rights and other stock and cash awards.

Eligibility

Employees, non-employee directors and consultants of the company and its subsidiaries are eligible for awards under the 2004 Plan. Non-employee directors also are eligible for an annual grant of restricted stock and non-qualified stock options.

In 2004, 2,083 persons received awards under the 2004 Stock Incentive Plan.

Our named executive officers have been granted options to purchase shares of company common stock under the 2004 Stock Incentive Plan through March 21, 2005 as follows:

Name	Options Granted
Charles R. Schwab	0
William L. Atwell	273,723
Christopher V. Dodds	291,971
Carrie E. Dwyer	228,103
Alan J. Weber	273,723
David S. Pottruck	0
Lon Gorman	0
Dawn G. Lepore	0

Our current executive officers as a group, current non-employee directors as a group and our current employees (excluding executive officers and directors) have been granted options to purchase shares of company common stock under the 2004 Stock Incentive Plan, as follows:

Group	Options Received
Current executive officers	2,545,627
Current non-employee directors	64,485
Current employees (excluding executive officers and directors)	16,072,027

Shares Available for Issuance

The aggregate number of shares of common stock that may be issued under the 2004 Plan does not exceed:

- 45 million shares of common stock, plus
- any shares of common stock subject to outstanding awards under our prior stock incentive plans as of the date the 2004 Plan was approved by stockholders that on or after such date cease for any reason to be subject to such awards (other than by reason of exercise or settlement of the awards to the extent they are exercised for or settled in shares), plus
- any shares of common stock that were issued under the prior plans and are reacquired by the company after the date the 2004 Plan was approved by stockholders.

The aggregate maximum number of shares of common stock available under the last two bullet points above is 150 million. The Compensation Committee may adjust the limit on the number of shares to account for any stock split, stock dividend, recapitalization or other similar event.

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EXHIBIT A

Formula Grants to Non-Employee Directors

Under the 2004 Plan (as amended, if the amendment is approved by stockholders), the annual, non-discretionary grants to non-employee directors consist of (i) options on 5,000 shares of common stock and (ii) a number of restricted shares of common stock determined by dividing \$60,000 by the fair market value of common stock on the grant date. These grants are made on the second business day following each regular annual meeting of the company's stockholders. The grants are subject to a three-year vesting schedule. Full vesting occurs on a director's death, disability or retirement, which means a non-employee director's resignation or removal from the Board at any time after he or she has attained age 70 or completed 5 years of service as a director. In addition, each new non-employee director receives an initial fully vested grant of options on 10,000 shares of common stock.

Administration

The plan is administered by our Compensation Committee. The committee will approve the aggregate benefits and the individual benefits for executive officers and non-employee directors. The committee may delegate its authority for certain other matters under the 2004 Plan in accordance with its terms.

TYPES OF AWARDS

Awards under the 2004 Plan are described below.

Stock Options

Stock options provide a right to acquire common stock at an exercise price at least equal to the fair market value of the company's stock on the date of grant. Stock options include non-qualified and incentive stock options. Incentive stock options are intended to qualify for special tax treatment. Stock options vest according to a schedule established by the Compensation Committee.

The plan permits for payment of stock acquired through stock options by cash, check, other shares of common stock (with some restrictions), broker-assisted same-day sales, or any other form of consideration permitted by applicable law. The term of an option cannot exceed ten years. The Compensation Committee will not have the right to reprice outstanding options if the fair market value of the stock declines.

Recipients may transfer stock options (other than incentive stock options, which must be nontransferable to qualify as incentive stock options) to certain trusts and partnerships formed for the benefit of family members.

Restricted Stock and Restricted Stock Units (RSUs)

Restricted stock is similar to common stock in that it has the same voting and dividend rights, but the recipient will forfeit the restricted stock if the applicable vesting conditions are not satisfied.

RSUs are a promise by the company to deliver a specified number of shares of stock at a future date upon the attainment of certain conditions established by the Compensation Committee. While each RSU is outstanding, its value is equal to the value of a share of common stock. Once the RSU is vested, the units are automatically converted into shares of stock unless the holder of the RSU elects to defer the conversion beyond the vesting date to delay the taxation of the stock or cash to a later tax year. Vested RSUs may be settled in stock, cash or a combination of both, as determined by the committee. Holders of RSUs do not have voting or dividend rights, but may be credited with dividend-equivalent compensation.

Recipients of restricted stock or RSUs cannot transfer them before they vest or are settled (except that the recipient may be permitted to transfer restricted stock by gift to certain trusts and partnerships formed for the benefit of family members).

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EXHIBIT A

Performance Stock and Performance Units

Generally, performance stock is stock subject to performance-based vesting requirements specified by the Compensation Committee. Performance units are obligations of the company to issue and deliver in the future shares of common stock in accordance with the terms of such grant provided that the applicable performance conditions specified by the committee are satisfied.

Recipients of units cannot transfer them, and the recipients have no voting or dividend rights until the associated shares of common stock are issued.

Performance stock and performance units may be settled in cash at the discretion of the committee.

Stock Appreciation Rights (SARs)

A SAR is a right to receive common stock or cash equal in value to: (a) the excess of (i) the fair market value of a share of common stock on the date of exercise of the right, over (ii) the fair market value of a share of common stock on the date of grant of the right, (b) multiplied by the number of shares for which the right is exercised.

The Compensation Committee may, in its discretion, substitute SARs for outstanding stock options.

Other Awards

The Compensation Committee may grant other incentives payable in cash or in common stock under the plan subject to such terms and conditions as it deems appropriate.

Performance-Based Awards

Awards under the 2004 Plan may be made subject to the attainment of performance goals relating to one or more business criteria, including:

- pre-tax income,
- operating income,
- cash flow,
- stockholder return,
- revenue,
- revenue growth,
- return on net assets,
- net income,
- earnings per share,
- return on equity, or
- return on investment.

Limits on Awards

Under the 2004 Plan, no participant may receive in any fiscal year stock options and SARs that collectively relate to more than 5 million shares, or restricted stock, RSUs, performance stock and performance units that are subject to the attainment of performance goals that collectively relate to more than 1 million shares.

The Compensation Committee may adjust these annual limits for any stock split, stock dividend, recapitalization or other similar event.

Payments of Director Fees in Awards

A non-employee director may elect to receive his or her annual retainer payments and/or meeting fees from the company in the form of cash, non-qualified stock options, restricted stock, RSUs, other stock or cash awards or a combination thereof by completing the procedures prescribed by the Compensation Committee or its delegate. The terms and number of awards to be granted to non-employee directors in lieu of annual retainers and meeting fees will be determined by the committee or its delegate.

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EXHIBIT A

Deferral of Awards

The Compensation Committee may permit or require a participant to have cash or shares that otherwise would be paid under the plan credited to a deferred compensation account. The account may be credited with interest or other forms of investment return, as determined by the committee.

Change in Control

Awards may be subject to such terms and conditions as the Compensation Committee deems appropriate, including provisions relating to a change in control.

FEDERAL TAX CONSEQUENCES

The following is a summary of the federal income tax consequences of awards under the 2004 Plan.

Options

When options are granted, there are no federal income tax consequences to the company or the option holder.

On the exercise of a non-qualified stock option, the option holder generally will have ordinary income. The amount of the income will be equal to:

- the fair market value of the shares on the exercise date, minus
- the option exercise price.

The income will be subject to tax withholding. Generally, in the same year that the option holder has income from the option exercise, the company will be able to take a tax deduction in the amount of that income.

On any subsequent sale of the shares, any additional gain or loss recognized by the holder generally will be a capital gain or loss.

In contrast, the exercise of incentive stock options will not normally result in any taxable income to the option holder at that time, nor will the company be entitled to any tax deduction. However, the exercise will result in an amount that is taken into account in computing the option holder's alternative minimum taxable income. This amount will be equal to:

- the fair market value of the shares on the exercise date, minus
- the option exercise price.

If the option holder exercises the options, holds the shares for the period required by law, and then sells the shares, the difference between the sale price and the exercise price generally will be taxed as long-term capital gain or loss.

If the option holder does not hold the shares for the period required by law, he or she generally will have ordinary income at the time of the early sale. The amount of ordinary income will be equal to:

- the fair market value of the stock on the exercise date (or, if less, the sale price), minus
- the option exercise price.

The company generally will be entitled to a tax deduction in that same amount. Any additional gain upon the sale generally will be taxed as capital gain.

Restricted Stock

Unless the recipient of restricted stock elects to be taxed when the shares are granted, there will be no federal income tax consequences to the recipient or to the company while the shares have vesting restrictions. Upon vesting, the recipient will have ordinary income. The amount of the income will be equal to the fair market value of the shares on the vesting date.

The income will be subject to tax withholding. The company generally will be entitled to a tax deduction in the amount of the recipient's income. Upon any subsequent sale of the shares, any additional gain or loss recognized by the holder generally will be a capital gain or loss.

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EXHIBIT A

Other Benefits

In the case of an exercise of an SAR or an award of RSUs, performance stock, performance units, or common stock or cash, the recipient will generally recognize ordinary income in an amount equal to any cash received and the fair market value of any shares received on the date of payment or delivery. In that taxable year, the company will receive a federal income tax deduction in an amount equal to the ordinary income which the recipient has recognized.

The taxation of an RSU can be voluntarily deferred to a later tax year if the holder makes a timely election to defer receipt of the shares or cash deliverable under the RSU. If properly deferred, the shares or cash delivered under the RSU are not taxed until the date income is recognized by the recipient.

Million Dollar Deduction Limit

The company may not deduct compensation of more than \$1 million that is paid to an individual who, on the last day of the taxable year, is either the company's chief executive officer or is one of the four other most highly-compensated officers for that taxable year as reported in the company's proxy statement. The limitation on deductions does not apply to certain types of compensation, including qualified performance-based compensation.

The company may structure the award of stock options, performance stock, performance units, SARs, performance-based restricted stock and RSUs to constitute qualified performance-based compensation which will be exempt from the \$1 million limitation on deductible compensation.

Plan Benefits Table

A new plan benefits table, as described in the federal proxy rules, follows. All awards under the 2004 Plan are discretionary except certain equity grants to non-employee directors.

Table of Contents**EXHIBIT A****NEW PLAN BENEFITS TABLE FOR THE AMENDED 2004 STOCK INCENTIVE PLAN**

NEW PLAN BENEFITS ⁽¹⁾	SHARES UNDERLYING INITIAL OPTION GRANTS TO NEW NON- EMPLOYEE DIRECTORS ⁽²⁾	ANNUAL, AUTOMATIC GRANTS TO NON-EMPLOYEE DIRECTORS	
		SHARES UNDERLYING OPTIONS ⁽³⁾	RESTRICTED SHARES ⁽⁴⁾
All current directors who are not executive officers, as a group (9 persons)	0	45,000	56,610

- (1) This table shows the grants that would have been made in 2004 to non-employee directors had the proposed amendment to the 2004 Stock Incentive Plan been in effect in 2004 (please refer to the section entitled "Proposals To Vote On Approval of an Amendment to 2004 Stock Incentive Plan Regarding Grants to Non-Employee Directors"). Since this proposed amendment relates only to non-employee directors, it is not applicable to executive officers or other employees of the company, who are therefore not shown in the table.
- (2) No new non-employee directors joined the Board in 2004. Consequently, there are no initial grants of stock to new non-employee directors that would have been made during 2004 had the proposed amendment to the 2004 Stock Incentive Plan been in effect in 2004.
- (3) This column shows the aggregate number of stock options that would have been granted on May 17, 2004 for the annual, automatic grant of options to the non-employee directors, as a group, had the proposed amendment to the 2004 Stock Incentive Plan been in effect during 2004. The amendment does not change the annual, automatic grants of stock options to non-employee directors.
- (4) This column shows the aggregate number of restricted shares that would have been granted on May 17, 2004 had the proposed amendment to the 2004 Stock Incentive Plan been in effect during 2004. The number of restricted shares granted to each non-employee director would have been 6,290, determined by dividing \$60,000 by \$9.54, which was the average of the high and low market prices of common stock on May 17, 2004.

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EXHIBIT B

DESCRIPTION OF CHARLES R. SCHWAB'S EMPLOYMENT AND LICENSE AGREEMENTS

This Exhibit B describes agreements with Charles R. Schwab relating to his employment and the use of the name Schwab by the company.

Employment Agreement

The company and Mr. Schwab entered into an amended employment agreement effective March 31, 2003. Stockholders approved the amended employment agreement. The amended agreement has an initial term of five years, and provides that as of each March 31, the term of the employment agreement is automatically extended by an additional year, under the same terms and conditions, unless beforehand either party provides notice to the other of an intention not to extend it.

The amended employment agreement provides for an annual base salary of \$900,000, subject to annual review by the Board, and provides that Mr. Schwab will be entitled to participate in all compensation and fringe benefit programs made available to other executive officers, including stock-based incentive plans. Instead of participating in the executive bonus plans, Mr. Schwab's annual bonus, if any, is computed as the amount of total cash compensation earned pursuant to a formula-based matrix, minus actual base salary paid during the year. This matrix measures our corporate performance according to one or more of the following: revenue growth, net revenue growth, operating revenue growth, consolidated pre-tax profit margin, consolidated pre-tax operating margin, consolidated after-tax profit margin, consolidated after-tax operating profit margin, client net new asset growth, stockholder return, return on assets, earnings per share, return on stockholder's equity, and return on investment. For 2004, the Compensation Committee utilized net revenue growth and after-tax operating profit margin as the measures for corporate performance used in calculating Mr. Schwab's annual bonus under the formula-based matrix. The committee has the authority to adjust the matrix periodically (except the committee may not change the matrix more than 90 days after the beginning of any fiscal year). The matrix cannot result in a payment that would cause Mr. Schwab's total cash compensation for the year (base salary and bonus) to exceed \$8,000,000.

The employment agreement also provides that certain compensation and benefits will be paid or provided to Mr. Schwab (or his immediate family or estate) if his employment is terminated involuntarily, except for cause, before the expiration of the employment agreement. Cause is defined as the commission of a felony, or willful and gross negligence, or misconduct that results in material harm to the company.

Involuntary termination includes a material change in Mr. Schwab's capacities or duties at the company. If an involuntary termination is not due to death, disability or cause :

- Mr. Schwab will be entitled to receive for a period of 36 months all compensation to which he would have been entitled had he not been terminated, including his base salary and participation in all bonus, incentive and other compensation and benefit plans for which he was or would have been eligible (but excluding additional grants under stock incentive plans), and

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- all his outstanding, unvested awards under stock incentive plans will vest fully on the termination date.

If an involuntary termination is due to disability, Mr. Schwab will be entitled to receive:

- his base salary and benefits, less any payments under the long-term disability plan, for a period of 36 months from the termination date, and
- a prorated portion of any bonus or incentive payments for the year in which the disability occurs.

If an involuntary termination is due to death, a lump sum payment will be made to Mr. Schwab's estate equal to five times his then base salary.

If Mr. Schwab voluntarily resigns his employment within 24 months of a change in control of the company, he will

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EXHIBIT B

be entitled to receive his base salary up to the date of resignation, plus a prorated portion of any bonus or incentive payments payable for the year in which the resignation occurs. In addition, if Mr. Schwab voluntarily resigns his employment, or his employment is involuntarily terminated, within 24 months of a change in control of the company, he will have the right (but not the obligation) to enter into a consulting arrangement with the company. Under that arrangement, Mr. Schwab would provide certain consulting services to the company for a period of five years for an annual payment equal to \$1 million or 75% of his then base salary, whichever is less.

The employment agreement prohibits Mr. Schwab from becoming associated with any business competing with the company during the term of the agreement and for a period of five years following a voluntary resignation of employment. (However, that restriction does not apply if Mr. Schwab resigns his employment within 24 months of a change in control of the company.)

License Agreement

The company and Charles Schwab & Co., Inc. also are parties to an assignment and license agreement with Mr. Schwab that was approved in July 1987 by the company's non-employee directors. Under the agreement, Mr. Schwab has assigned to the company all service mark, trademark, and trade name rights to Mr. Schwab's name (and variations on the name) and likeness. However, Mr. Schwab has retained the perpetual, exclusive, irrevocable right to use his name and likeness for any activity other than the financial services business.

Beginning immediately after any termination of his employment, Mr. Schwab will be entitled to use his likeness in the financial services business for some purposes (specifically, the sale, distribution, broadcast and promotion of books, videotapes, lectures, radio and television programs, and also any financial planning services that do not directly compete with any business in which the company or its subsidiaries are then engaged or plan to enter within three months). Beginning two years after any termination of his employment, Mr. Schwab may use his likeness for all other purposes, as long as that use does not cause confusion about whether the company is involved with goods or services actually marketed by Mr. Schwab or by third parties unrelated to the company.

So long as Mr. Schwab does not cause actual confusion among clients, he will at all times be able to use his own name to identify himself, but not as a service mark, trademark or trade name in the financial services business. The assignment and license agreement defines the "financial services business" as the business in which Charles Schwab & Co., Inc. is currently engaged and any additional and related businesses in which that firm or the company is permitted to engage under rules and regulations of applicable regulatory agencies. The company's ability to assign or license the right to use Mr. Schwab's name and likeness is severely limited during Mr. Schwab's lifetime.

No cash consideration is to be paid to Mr. Schwab for the name assignment while he is employed by the company or, after his employment terminates, while he is receiving compensation under an employment agreement with the company. Beginning when all such compensation ceases, and continuing for a period of 15 years, Mr. Schwab or his estate will receive three-tenths of one percent (0.3%) of the aggregate net revenues of the company (on a consolidated basis) and those of its unconsolidated assignees and licensees that use the name or likeness. These payments may not, however, exceed \$2 million per year, adjusted up or down to reflect changes from the cost of living prevailing in the San Francisco Bay Area during specified months in 1987, and they will terminate if the company and its subsidiaries cease using the name and likeness.

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EXHIBIT C

DESCRIPTION OF LON GORMAN S EMPLOYMENT AGREEMENT

This Exhibit C describes the termination provisions of Lon Gorman s employment agreement, which includes the Schwab Capital Markets Incentive Plan.

Termination Provisions of Employment Agreement

Mr. Gorman served as Executive Vice-President and Vice-Chairman of The Charles Schwab Corporation and President of Schwab Capital Markets, L.P. During May 2002, the Compensation Committee approved Mr. Gorman s employment agreement for a term of five years. Under the employment agreement, Mr. Gorman s departure from the Company entitled him to certain compensation and benefits. On November 1, 2004, Mr. Gorman resigned from his positions with the company for good reason as defined in his employment agreement.

Under the applicable termination provisions of his employment agreement, Mr. Gorman received three years of his annual base salary of \$600,000 discounted to present value by compounded 6% interest and three years of his annual target bonus of \$870,000 (145% of his annual base salary). Mr. Gorman received \$90,074, in lieu of continued medical and life insurance coverage for three years, \$61,540 as a related tax reimbursement, as well as an additional payment of \$10 million under the terms of his employment agreement.

Mr. Gorman also received a cash payment for the balance of his unused vacation time. All payments were made in a lump sum, net of applicable tax withholdings.

Mr. Gorman s equity-based awards, including stock options and restricted stock, continue to vest for three years after his resignation date. In addition, Mr. Gorman is able to exercise vested stock options for up to 39 months after his resignation date. The provisions regarding non-competition, non-solicitation, confidentiality and assignment of developments set forth in the employment agreement continue for the specified period of time after Mr. Gorman s resignation date. Mr. Gorman provided the company and its affiliates with a general release and waiver of all claims.

For specific information regarding the amounts paid to Mr. Gorman, please refer to the Summary Compensation Table.

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EXHIBIT D

DESCRIPTION OF DAVID S. POTTRUCK'S SEPARATION AGREEMENT

This Exhibit D describes David S. Pottruck's separation agreement.

Separation Agreement

On August 2, 2004, Mr. Pottruck entered into an agreement with the company in connection with his replacement as Chief Executive Officer on July 20, 2004. Under the terms of the separation agreement, Mr. Pottruck took an eight week sabbatical (at his monthly salary of \$83,333) for which he was eligible under the company's sabbatical program.

Following the sabbatical and commencing on October 1, 2004, Mr. Pottruck is entitled to receive a monthly payment of \$135,714 for 28 months until January 31, 2007. Mr. Pottruck will receive medical insurance for 28 months and life insurance for 24 months, subject to regular employee payroll deductions. Mr. Pottruck will continue to vest in 365,498 performance shares, 1,417,100 stock options, and 1,500,000 cash units under the Long-Term Incentive Plan. Such vesting will continue until January 31, 2007. In addition, Mr. Pottruck will continue to vest in 900,000 stock options until May 11, 2005. If, however, Mr. Pottruck becomes associated with a competitor business prior to January 31, 2007, salary continuation payments, benefits continuation, and all further vesting of his long-term awards will stop and all remaining payments and then-unvested awards will be forfeited. If Mr. Pottruck becomes associated with a non-competitor business prior to January 31, 2007, his benefits continuation will stop and he will receive a lump sum payment for any remaining salary continuation payments and, with the exception of 900,000 stock options, his long-term awards will be fully vested and exercisable. In addition, 3,111,093 stock options granted on May 11, 1998 will be exercisable no later than August 10, 2006 and 38,907 stock options granted on May 11, 1998 were exercisable no later than November 10, 2004.

Under the separation agreement, Mr. Pottruck also received a lump sum payment in the amount of \$6,200,000. Mr. Pottruck is entitled to reimbursement for up to twelve months of the cost of office space at a maximum cost of \$155,321 and senior-level secretarial assistance at a maximum cost of \$142,704. Mr. Pottruck will receive a cash payment for the balance of his unused vacation time through September 30, 2004. Cash amounts payable as described above are reduced by applicable deductions and tax withholdings. Mr. Pottruck provided the company and its affiliates with a general release and waiver of all claims.

For specific information regarding the amounts paid to Mr. Pottruck, please refer to the Summary Compensation Table.

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EXHIBIT E

DESCRIPTION OF CORPORATE EXECUTIVE BONUS PLAN

Plan Participants

Employees on the company's Executive Committee (including the Chief Executive Officer) or those holding Executive Vice President or comparable positions with the company are eligible to participate in the Corporate Executive Bonus Plan. Executive officers whose annual bonuses are determined under separate employment agreements with the company are not eligible to participate in the plan. Currently, sixteen officers are eligible to participate in the plan. The current Chairman and Chief Executive Officer does not participate in the plan because he has a separate employment agreement with the company.

Determination of Bonus Amounts

The Corporate Executive Bonus Plan specifies a target bonus for each participant, which is expressed as a percentage of that executive's annual base salary (depending upon an assessment of that executive's roles and responsibilities). The Compensation Committee sets target bonuses in the first quarter of each year, based upon the recommendations of the Chairman and Chief Executive Officer.

Under the plan as proposed to be amended the maximum award that may be paid to any participant (other than the Chief Executive Officer) for any calendar year cannot exceed \$8 million. Under the current plan the maximum award that may be paid to such a participant for any calendar year is 400% of his or her target award. The amount of base salary taken into account for purposes of computing such target award cannot exceed 250% of the base salary in effect for the officer holding the same position as the participant on March 31, 2000. For example, in the case of a participant whose base salary was \$600,000 on March 31, 2000, the maximum annual award payable to such a participant under the current plan is \$6 million ($\$600,000 \times 250\% \times 400\%$).

Under the plan as proposed to be amended the maximum award that may be paid to the Chief Executive Officer for any calendar year cannot exceed \$15 million. Under the current plan the maximum award that may be paid to the Chief Executive Officer for any calendar year is 500% of his or her target award. Such target award cannot exceed 500% of the Chief Executive Officer's base salary. The amount of base salary taken into account for this purpose cannot exceed 250% of the Chief Executive Officer's base salary as of March 31, 2000. For example, in the case of a Chief Executive Officer whose current base salary is \$900,000, the maximum annual award payable to such Chief Executive Officer under the current plan would be \$22.5 million ($\$900,000 \times 500\% \times 500\%$).

The matrix or matrices under the plan relate the payout percentage to the company's annual performance relative to its targets. Under the amended plan, the Compensation Committee is able to select from among the following performance measures in establishing such targets at the beginning of each year after a review of corporate and business goals and objectives: pre-tax operating profit margin, pre-tax reported profit margin, after-tax operating profit margin, after-tax reported profit margin, pre-tax operating profits, pre-tax reported profits, cash flow, revenues, revenue growth, operating revenue growth, client net new asset growth, return on assets, return on equity, return on investment, stockholder

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return and/or value, earnings per share, conversions of and/or increase in client assets, sales (of products, offers, or services) and changes between years or periods that are determined with respect to any of these performance criteria.

Performance criteria under the amended plan may be measured on a corporate, subsidiary, enterprise or business unit basis, or a combination thereof. Performance criteria may reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group of entities or other external measure of the selected performance criteria. The formula for calculating

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EXHIBIT E

bonuses may include or exclude items to measure specific objectives, such as losses from discontinued operations, extraordinary gains or losses, the cumulative effect of accounting changes, acquisitions or divestitures, and any unusual, nonrecurring gain or loss.

Bonus Payments

Payments under the plan for any year may be made on the basis of either a quarterly or an annual performance period. Payments are made only in cash. Amounts payable under the Corporate Executive Bonus Plan are generally paid as soon as practicable after the applicable performance period.

Plan Administration

The Compensation Committee administers the plan and makes all decisions regarding the operation of the plan and payments under it. The Compensation Committee may amend or terminate the plan at any time and for any reason.

Federal Tax Consequences

Section 162(m) of the Internal Revenue Code authorizes tax deductions for certain executive compensation in excess of \$1 million only if such compensation is based on performance and the plan under which it is paid is approved by stockholders.

If stockholders do not approve the amendment, bonus payments to certain participants, or portions of such bonus payments, which are determined on the basis of the performance measures as applied to specific enterprises or business units, may not be paid or qualify for deduction under section 162(m), to the extent that certain compensation paid to any such participant in any calendar year exceeds \$1 million.

General

Because awards under the amended plan are discretionary and the specific performance criteria for awards may vary from year to year, the company is not able to determine in advance any specific amounts payable to plan participants or class of participants.

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THE CHARLES SCHWAB CORPORATION

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(b) *Committee Administration.* The Committee shall have discretionary authority to construe and interpret the Plan and any benefits granted under the Plan, to establish, interpret and

(d) *Adjustments.* The shares reserved for issuance and the limitations set forth in this Section 4 shall be subject to adjustment in accordance with Section 6.

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(A) the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of Common Stock of the Company (the Outstanding Common Stock) and the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Voting Securities) immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Common Stock and Outstanding Voting Securities, as the case may be; and

(B) no Person (as defined in subparagraph (iii) below) (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) sponsored or maintained by the Company or such other corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation, except to the extent that such ownership of Outstanding Common Stock or Outstanding Voting Securities existed prior to the Business Combination; and

(C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(ii) If individuals who, as of the Effective Date, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of (A) an actual or threatened election contest with respect to the election or removal of directors; (B) an actual or threatened solicitation of proxies or consents; or (C) any other actual or threatened action by, or on behalf of, any Person other than the Board; or

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performance standards and targets with respect to the Executive's incentive opportunity, which review and approval shall be completed no later than the 90th day of the Company's fiscal year for which such incentive opportunity may be earned.

Notwithstanding anything to the contrary, the Executive's maximum annual cash compensation (including base salary and annual incentive) may not exceed \$8,000,000.

(c) **Long-Term Incentive.** The Executive will be considered for stock options in accordance with the Company's 2001 Stock Incentive Plan, as amended, or any successor thereto (Stock Option Program) and any other long-term incentives offered to other executives of the Company from time to time during the term of this Agreement.

(d) **Benefits.** The Executive shall be entitled to participate, as long as he is an employee of the Company, in any and all of the Company's present or future employee benefit plans, including without limitation pension plans, thrift and savings plans, insurance plans, and other benefits that are generally applicable to the Company's executives; provided, however, that the accrual and/or receipt by the Executive of benefits under and pursuant to any such present or future employee benefit plan shall be determined by the provisions of such plan.

(e) **Perquisites.** The Executive will be provided such additional perquisites as are customary for senior level executives of the Company provided that each perquisite is approved by the Board of Directors.

(f) **Business Expenses.** The Executive will be reimbursed for all reasonable expenses incurred in connection with the conduct of the Company's business upon presentation of evidence of such expenditures, including but not limited to travel expenses incurred by the Executive in the performance of his duties, security for the Executive, his family, and principal residence, professional organization dues, and club initiation fees, dues and expenses.

(g) Any annual incentive award earned by Executive under this Section 3 shall be paid as soon as reasonably practical after the end of the Company's fiscal year end; provided, however, that if any such payment would be nondeductible to the Company under Internal Revenue Code Section 162(m), then any nondeductible amounts shall be deferred from year to year until the payment of such amounts is deductible by the Company.

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to the date of termination and a prorated annual incentive award based on the calculated bonus for the year in which termination occurred, as defined in Section 3(b), in a lump sum on the thirtieth (30th) day following the Date of Termination.

5. COVENANT NOT TO COMPETE

(a) As a material inducement to the Company's entering into this Agreement, the Executive agrees that during the term of this Agreement, he will not become associated with, render service to or engage in any other business competitive with any existing or contemplated business of the Company or its subsidiaries, except that the Executive may serve as a member of the board of directors of other companies or organizations, provided that he provides written notice to the Board of each significant activity, and that he will do nothing inconsistent with his duties and responsibilities to the Company.

(b) If the Executive voluntarily resigns from the employ of the Company prior to the expiration of the term of this Agreement, he specifically agrees that for a period of five (5) years commencing with the date of his voluntary resignation he will not engage in or perform any services either on a full-time or a part-time or on a consulting or advisory basis for any business organization that is in competition with the Company at the time such services are being performed by Executive, with the exception that this Section 5(b) shall not apply in the event the Executive resigns voluntarily following a change in control of the Company as defined in Section 4(f).

(c) The Executive will not at any time, whether while employed by the Company or after voluntary or involuntary termination or after retirement, reveal to any person, firm or entity any trade or business secrets or confidential, secret, or privileged information about the business of the Company or its subsidiaries or affiliates except as shall be required in the proper conduct of the Company's business.

6. CONSULTING ARRANGEMENT

Following a voluntary termination of employment pursuant to Section 4(a) and 4(f), or an involuntary termination subsequent to a change in control of the Company, for any reason but during a 24-month period following a change in control as defined in Section 4(f), after the Executive ceases to render services as the Chairman, he may in his sole discretion elect to act as a consultant to the Company for a period of five (5) years. During this period of consulting services, the Executive shall, at reasonable times and places, taking into account any other employment or activities he may then have, hold himself available to

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consult with and advise the officers, directors, and other representatives of the Company. As compensation therefore, the Executive shall be entitled to receive, and Company shall pay, an annual amount equal to seventy-five percent (75%) of his annual base salary rate in effect immediately prior to his termination of employment, but in no event an annual amount to exceed \$1,000,000, for each year of such period, payable in equal monthly installments.

7. WITHHOLDING

All amounts payable hereunder which are or may become subject to withholding under pertinent provisions of law or regulation shall be reduced for applicable income and/or employment taxes required to be withheld.

8. MISCELLANEOUS

(a) This Agreement supersedes any prior agreements or understandings, oral or written, with respect to employment of the Executive and constitutes the entire Agreement with respect thereto; provided, however, that nothing contained herein shall supercede that certain Assignment and License Agreement entered into as of March 31, 1987, as amended. This Agreement cannot be altered or terminated orally and may be amended only by a subsequent written agreement executed by both of the parties hereto or their legal representatives, and any material amendment must be approved by a majority of the voting shareholders of the Company.

(b) This Agreement shall be governed by and construed in accordance with the laws of the State of California.

(c) This Agreement shall be binding upon and shall inure to the benefit of the Company and its successors and assigns. In that this constitutes a personal service agreement, it may not be assigned by the Executive and any attempted assignment by the Executive in violation of this covenant shall be null and void.

(d) For the purpose of this Agreement, the phrase "designated beneficiary or beneficiaries" shall include the estates of such beneficiaries in the event of their death before the receipt of all payments under this Agreement and shall also include any alternate or successor beneficiaries designated in writing to the Company by the Executive.

(e) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions, which shall remain in full force and effect.

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(f) The Section and Paragraph headings contained herein are for reference purposes only and shall not in any way affect the meanings or interpretation of this Agreement.

(g) Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a panel of arbitrators in accordance with the rules of the American Arbitration Association then in effect. Judgement may be entered on the arbitrators award in any court having jurisdiction. The expense of such arbitration shall be borne by the Company.

(h) Any notices, requests or other communications provided for by this Agreement shall be sufficient if in writing and if sent by registered or certified mail to the Executive at the last address he has filed in writing with the Company or, in the case of the Company, at its principal offices.

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IN WITNESS WHEREOF, the parties have executed this Agreement on the day and year first above written.

ATTEST

By: Carrie Dwyer
Corporate Secretary

Company:
THE CHARLES SCHWAB CORPORATION

By: Mary McLeod
Title: Executive Vice President - Human Resources

Executive: /s/ Charles R. Schwab
Charles R. Schwab

Charles J. Conroy, Jr.

Milbank, Tweed, Hadley & McCloy, LLP

1 Chase Manhattan Plaza

New York, NY 10005

Facsimile No.: (212) 530-5219

or such other persons or such other addresses as may be designated in writing by the parties, by a notice given as aforesaid.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

Schwab Capital Markets L.P.:

By: /s/ James Leonard

Its: SVP of General Partner

The Charles Schwab Corporation:

By: /s/ David S. Pottruck

Its: President and Co-CEO

EXECUTIVE:

/s/ Lon Gorman

Lon Gorman

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EXHIBIT A-1

The Charles Schwab Corporation

Corporate Executive Bonus Plan

(As Amended February 27, 2002)

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X. Miscellaneous

All expenses and costs in connection with the operation of this Plan shall be borne by the Company and no part thereof shall be charged against the awards anticipated by the Plan. Nothing contained herein shall be construed as a guarantee of continued employment of any participant hereunder. This Plan shall be construed and governed in accordance with the laws of the State of California.

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EXHIBIT A-2

The Charles Schwab Corporation

Annual Executive Individual Performance Plan

(As Amended February 27, 2002)

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3. Notwithstanding anything to the contrary contained in this Plan, the Committee shall have the power, in its sole discretion, to reduce the amount payable to any Participant (or to determine that no amount shall be payable to such Participant) with respect to any award prior to the time the amount otherwise would have become payable hereunder. In the event of such a reduction, the amount of such reduction shall not increase the amounts payable to other participants under the Plan.

IV. Administration

1. Except as otherwise specifically provided, the Plan shall be administered by the Committee. The Committee members shall be appointed pursuant to the Bylaws of the Company, and the members thereof shall be ineligible for awards under this Plan for services performed while serving on said Committee.
2. The decision of the Committee with respect to any questions arising as to interpretation of the Plan, including the severability of any and all of the provisions thereof, shall be, in its sole and absolute discretion, final, conclusive and binding.

V. Eligibility for Awards

1. Awards under the Plan shall be granted by the Committee to those employees who are eligible to participate in the CEB Plan. This is intended to include the Vice Chairmen, Executive Vice Presidents, and other officers having comparable positions.

No award may be granted to a member of the Company's Board of Directors except for services performed as an employee of the Company.

2. Except in the event of retirement, death, or disability, to be eligible for an award an employee must be employed by the Company as of the date awards are calculated and approved by the Committee under this Plan.
3. For purposes of this Plan, the term "employee" shall include an employee of a corporation or other business entity in which this Company shall directly or indirectly own 50% or more of the outstanding voting stock or other ownership interest.

VI. Awards

1. The Committee shall determine each year the payments, if any, to be made under the Plan. Awards for any calendar year shall be granted not later than the end of the first quarter of the calendar year, and payments pursuant to the Plan shall be made as soon as practicable after the close of the calendar year.
2. Upon the granting of awards under this Plan, each participant shall be informed of his or her award by his or her direct manager and that such award is subject to the applicable provisions of this Plan.

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VII. Deferral of Awards

1. A participant in this Plan who is also eligible to participate in The Charles Schwab Corporation Deferred Compensation Plan may elect to defer payments pursuant to the terms of that plan.

VIII. Recommendations and Granting of Awards

1. Recommendations for awards shall be made to the Committee by the Co-Chief Executive Officers.
2. Any award shall be made in the sole discretion of the Committee, which shall take final action on any such award. No person shall have a right to an award under this Plan until final action has been taken granting such award.

IX. Amendments and Expiration Date

While it is the present intention of the Company to grant awards annually, the Committee reserves the right to modify this Plan from time to time or to repeal the Plan entirely, or to direct the discontinuance of granting awards either temporarily or permanently; provided, however, that no modification of this plan shall operate to annul, without the consent of the beneficiary, an award already granted hereunder; provided, also, that no modification without approval of the stockholders shall increase the maximum amount which may be awarded as hereinabove provided.

X. Miscellaneous

All expenses and costs in connection with the operation of this Plan shall be borne by the Company and no part thereof shall be charged against the awards anticipated by the Plan. Nothing contained herein shall be construed as a guarantee of continued employment of any participant hereunder. This Plan shall be construed and governed in accordance with the laws of the State of California.

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EXHIBIT B

SUMMARY OF SCM INCENTIVE PLAN

Schwab Capital Markets Incentive (SCM Incentive)

As a participant in the SCM Incentive Plan, Mr. Gorman will be eligible for annual incentive compensation on the basis of the performance of Schwab Capital Markets and other related capital markets businesses under his authority. The SCM Incentive will fund on the basis of the financial performance of SCM as measured by the actual adjusted pretax contribution margin for the combined performance of all capital markets-related businesses that report to Mr. Gorman. The target SCM Incentive for Mr. Gorman is \$3 million and the maximum SCM Incentive payable to Mr. Gorman is \$7 million. No bonus payment from this plan will be made unless SCM attains the threshold of 80% of its financial goals and Mr. Gorman is employed by SCM on the date of payment.

SCM performance vs. plan and the resulting SCM Incentive, if any, will be pro-rated for performance between levels (e.g., performance at 110% of goal would result in a bonus of between \$3 million and \$4 million, as calculated by Corporate Finance based on the matrix in [Exhibit C](#) (which matrix may be revised each year as specified in Section 4(c) of the Agreement)) and for partial years worked by Mr. Gorman.

Form Of SCM Incentive Payment

The first \$1 million in annual SCM Incentive payable under this Plan, if any, shall be paid entirely in cash. Any amount earned above \$1 million will be paid 50% in cash and 50% in restricted shares (e.g., if an SCM Incentive of \$3 million is payable, \$2 million will be paid in cash and \$1 million in restricted shares).

The restricted share grant amount will be determined by TCSC on the date of grant, so that the total dollar value of restricted shares is converted into TCSC shares by dividing the total dollar value by the average of the high and low price of TCSC stock on the date of grant. E.g., if a \$1 million value is to be granted in restricted shares, an average TCSC stock price of \$13 on the date of grant, would result in a restricted share grant of 76,923 shares (rounded).

Restricted shares grants in lieu of cash incentive will vest following the below vesting schedule:

Time	Annual	Cumulative
Period	Vesting %	Vesting %
1st year	0%	0%

2nd year	50%	50%
3rd year	50%	100%

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Timing Of SCM Incentive Payment

The cash portion of any SCM Incentive will be paid by the end of February of each year, based on performance for the prior year (e. g., incentive for year 2002 will be paid in February, 2003), unless Mr. Gorman elects to defer the payment under Schwab's Officer Deferred Compensation Plan. Assuming that the cash portion of any SCM Incentive is determined prior to the February Compensation Committee meeting of TCSC Board of Directors, then any restricted grant portion of the SCM Incentive payable to Mr. Gorman will be granted at the February meeting of the Committee. In 2002, this meeting was held February 27.

SCM Incentive Plan Subject to TCSC Stockholder Approval in 2003

The SCM Incentive Plan (and any payments payable to Mr. Gorman under said plan) with respect to any calendar year after 2002 are expressly contingent upon the approval by a majority of TCSC's stockholders at TCSC's 2003 annual meeting, of a proposal to approve the potential SCM Incentive payments which may be payable to Mr. Gorman under said plan. If a majority of TCSC's stockholders fails to approve such a proposal at the TCSC 2003 annual meeting the SCM Incentive Plan shall be null and void and of no further force and effect with respect to any calendar year after 2002.

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EXHIBIT C

SCM INCENTIVE MATRIX ILLUSTRATION

If Actual Adjusted Pretax Contribution Margin is:	SCM Bonus					
	SCM Performance	SCM Bonus	Payout as % of Target Bonus	Bonus Paid As:		
				Cash	Shares \$ Value	Shares \$13.00*
Less than \$111.1 mm	<80%	\$ 0	0%	\$ 0	\$ 0	0
\$111.1 mm	80%	\$ 1,000,000	33%	\$ 1,000,000	\$ 0	0
\$124.9 mm	90%	\$ 2,000,000	67%	\$ 1,500,000	\$ 500,000	38,462
\$138.8 mm	100%	\$ 3,000,000	100%	\$ 2,000,000	\$ 1,000,000	76,923
\$156.2 mm	112.5%	\$ 4,000,000	133%	\$ 2,500,000	\$ 1,500,000	115,385
\$173.5 mm	125%	\$ 5,000,000	167%	\$ 3,000,000	\$ 2,000,000	153,846
\$190.9 mm	137.5%	\$ 6,000,000	200%	\$ 3,500,000	\$ 2,500,000	192,308
\$208.2 mm	150%**	\$ 7,000,000	233%	\$ 4,000,000	\$ 3,000,000	230,769

* In this example, the dollar amount represents the number of shares granted by dividing the shares dollar value by the appropriate SCH stock price.

** 150% or greater; the plan payout is capped at \$7 million

The plan is based on a SCM 2002 revenue goal of \$437 million and an adjusted 2002 pretax contribution margin goal of \$138.8 million, or 31.77%. These figures do not include AMPS. The adjusted pretax contribution margin goal is derived by starting with an unadjusted pretax contribution margin of 34.3% and subtracting the cost of equity applied to the equity capital maintained in SCM and the equity capital required by the Securities Lending business. At the end of 2001, SCM's equity capital was \$66.9 million and the equity implied in the Securities Lending business was \$7.5 million (i.e., loan balance of \$602 million multiplied by an equity requirement of 1.25%). TCSC's cost of equity at the end of 2001 was about 15%; thus, the pretax contribution margin has been adjusted down by \$11.2 million, or 15% of \$74.4 million (i.e., \$66.9 million plus \$7.5 million).

The adjusted actual pretax contribution margin calculated to determine the achieved performance measure will also include an adjustment to cover the cost of equity required to support any acquisition by SCM.

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EXHIBIT D

EXECUTIVE S INVENTIONS

[to be inserted]

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SUPPLEMENTAL AGREEMENT

This Supplemental Agreement (the Agreement) is entered into as of August 30, 2002 by and among the Charles Schwab Corporation, a Delaware corporation (TCSC), Schwab Capital Markets, L.P., a New Jersey Limited partnership (SCM) and Lon Gorman, an individual (Executive).

WHEREAS TCSC, SCM and Executive entered into an Executive Employment Agreement (the Employment Agreement) in July, 2002 but inadvertently failed to fill in the Effective Date for the Employment Agreement when executing it; and

WHEREAS, TCSC, SCM and Executive wish to avoid any misunderstanding and confirm the Effective Date of the Employment Agreement.

NOW, THEREFORE, in consideration of the mutual premises set forth herein, and for other good and valuable consideration, the parties hereby agree as follows:

AGREEMENT

1. **Defined Terms**

Any term used in this Agreement that is defined in the Employment Agreement shall have the same meaning as set forth in the Employment Agreement.

2. **Effective Date**

The parties acknowledge and agree that the Effective Date of the Employment Agreement is July 16, 2002.

3. **No Other Addition or Deletion**

Except as set forth herein, no addition or deletion to the Employment Agreement has been made.

4. **Other Provisions**

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Sections 11, 12, 13, 14, 15(other than second sentence), 16, 17, 19, 20(other than reference to Sections 6 and 12), 21, 22(other than reference to \$25,000) and 23 of the Employment Agreement shall be deemed to be set forth in this Agreement mutatis mutandis.

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IN WITNESS WHEREOF, the parties have executed the Agreement as of the date first written above.

Schwab Capital Markets, L.P.:

By: /s/ James Leonard

Its: SVP of General Partner

The Charles Schwab Corporation:

By: /s/ David S. Pottruck

Its: President and Co-CEO

By: /s/ Carrie E. Dwyer

Carrie E. Dwyer

Its:

Executive Vice-President,

General Counsel and Corporate Secretary

Executive:

/s/ Lon Gorman

Lon Gorman

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**SEPARATION AGREEMENT, GENERAL RELEASE AND WAIVER OF
CLAIMS**

This Separation Agreement, General Release and Waiver of Claims (Agreement) is entered into by and between David S. Pottruck (Mr. Pottruck), on the one hand, and The Charles Schwab Corporation and Charles Schwab & Co., Inc., their respective affiliates and the predecessors, successors and assigns of each of the foregoing (collectively Schwab or the Company), on the other hand, dated as of August 2, 2004 (the Execution Date) and effective upon the expiration of the Revocation Period described in Paragraph 27(g), below (Effective Date). Together, Mr. Pottruck and the Company shall be referred to herein as the Parties.

RECITALS

WHEREAS, Mr. Pottruck was requested by the Board of Directors of The Charles Schwab Corporation to step down from his position as Chief Executive Officer, whereupon he did so effective July 20, 2004.

WHEREAS, the Parties now desire to definitively resolve, fully and finally, all differences, disputes and claims Mr. Pottruck might have against the Company and anyone connected with it through and including the Execution Date, including, but not limited to, those arising out of or relating to Mr. Pottruck's employment relationship with Schwab and the termination thereof.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Company and Mr. Pottruck hereby agree as follows:

AGREEMENT

1. Resignation of Positions. Mr. Pottruck is deemed to have resigned as a Schwab Officer, from any and all Schwab directorships he holds, and from the Executive Committee effective as of July 20, 2004. Mr. Pottruck acknowledges and agrees that with the exception of his accrued vacation, he has received all wages due to him for services rendered as a result of his employment as Chief Executive Officer with, and services as an officer and director of, the Company up to and including July 20, 2004.

2. Consideration. Subject to and upon satisfaction by Mr. Pottruck of the terms and conditions set forth in this Agreement, Schwab agrees to provide Mr. Pottruck the following consideration:

- (i) Schwab will continue to employ Mr. Pottruck, which it is not otherwise obligated to do, subject to the terms and conditions of this Agreement. Mr. Pottruck's employment with Schwab will end on the earlier of: 1) January 31, 2007; 2) the date Mr. Pottruck becomes employed by another employer, becomes an independent contractor, consultant, or a sole proprietor of a business, or acts as an officer, director, or partner in another

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public or privately held company (except as otherwise expressly provided in Paragraphs 8 and 9, below, with respect to approved outside business activity consistent with continued Schwab employment); or 3) on a date resulting from a violation by Mr. Pottruck of his obligations under Paragraphs 8 or 9 below. The date Mr. Pottruck's employment ends will be his Termination Date. Mr. Pottruck shall perform such duties as are reasonably assigned to him by Charles Schwab and shall report solely to Mr. Schwab regarding those duties. Except as specifically provided herein to the contrary, Mr. Pottruck agrees to comply with all Company policies (including but not limited to human resources, information security, compliance, the Code of Business Conduct, and all Compliance policies on outside business activities), up through and including his Termination Date;

- (ii) Schwab will pay Mr. Pottruck a monthly salary of eighty-three thousand three hundred thirty-three dollars and thirty-three cents (\$83,333.33), less usual and customary taxes, withholding, and authorized deductions, in accordance with its usual payroll practices for the period commencing on August 1, 2004 and ending on September 30, 2004. Commencing on October 1, 2004 and ending on the Termination Date, Schwab will pay Mr. Pottruck a monthly salary of one-hundred thirty-five thousand seven hundred fourteen dollars and twenty-eight cents (\$135,714.28), less usual and customary taxes, withholding and authorized deductions, in accordance with its usual payroll practices;

- (iii) On and following the Effective Date, Mr. Pottruck will continue to be eligible for all regular employee insured benefits (including life insurance, the executive medical plan, vision, and dental and excluding Short and Long Term Disability, except as otherwise required by law) on the same terms and conditions as the other plan participants in accordance with the terms of each plan through the Termination Date except to the extent the Termination Date is beyond twenty-four (24) months, the continuation of life insurance will cease after twenty-four (24) months;

- (iv) Schwab will pay Mr. Pottruck a lump sum payment of six million two hundred thousand dollars (\$6,200,000.00), payable as soon as practicable after the Effective Date, less usual and customary taxes, withholding, and authorized deductions;

- (v) Schwab will allow Mr. Pottruck to continue to vest in the 365,498 Performance Shares awarded by the Performance Shares Award Agreement dated March 14, 2003 in accordance with the terms of the applicable plan documents and award agreement; provided that, subject to Paragraph 8, Schwab will cause all such Performance Shares to be fully vested without restriction as of Mr. Pottruck's Termination Date, and delivered to him as soon as practicable after the Termination Date and after Mr. Pottruck has made arrangements satisfactory to Schwab for the

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satisfaction of any withholding tax obligations that arise by reason of the vesting of such Performance Shares;

- (vi) Schwab will allow Mr. Pottruck to continue to vest in (a) 1,405,839 shares of Schwab Common Stock (Schwab Stock) under the Nonqualified Stock Option Agreement dated May 9, 2003 and (b) 11,261 shares of Schwab Stock under the Incentive Stock Option Agreement dated May 9, 2003 in accordance with the terms and conditions of the applicable plan documents and option agreements; provided that, subject to Paragraph 8, Schwab will cause all such stock options to be fully vested and exercisable as of Mr. Pottruck's Termination Date;

- (vii) Schwab will allow Mr. Pottruck to continue to vest in 1,500,000 units awarded by the LTIP Award Agreement granted as of January 1, 2003 in accordance with the terms of the applicable plan document and award agreement, subject to Paragraph 8; and

- (viii) Schwab will provide appropriate office space that is agreeable to both parties provided, however, that if such space is located in a current Schwab location, Mr. Pottruck will be provided the use of the space for up to twenty-eight (28) months from the date of occupancy or until his Termination Date, whichever is earlier but if such space is not located in a current Schwab location and is leased from an outside source, Mr. Pottruck will have the use of the space for up to twelve (12) months from the date of occupancy or until his Termination date, whichever is earlier. Schwab will also provide one senior-level secretarial assistant and Executive Technology Group (ETG) support for twelve (12) months or until the Termination Date, whichever is earlier.

3. No Other Employee Benefits. Mr. Pottruck is not eligible for any other benefits or payments not specifically provided for in this Agreement. Upon reaching the Termination Date, in accordance with federal and state regulations, Mr. Pottruck will be offered the opportunity to continue receiving certain insured group benefit coverage, such as medical benefits, for a period of time not to exceed eighteen (18) additional months, provided Mr. Pottruck pays the appropriate premiums for the coverage and returns the necessary paperwork. Mr. Pottruck will not be eligible to accrue vacation or floating holidays after July 20, 2004. Schwab will pay Mr. Pottruck all accrued but unused vacation and floating holidays accrued through July 20, 2004 on the next regularly scheduled payday following the Effective Date.

4. Waiver of Benefits under The Charles Schwab Severance Pay Plan. Mr. Pottruck acknowledges and agrees that the consideration described in Paragraph 2, above, is in lieu of and a substitute for any severance benefits he may have been eligible to receive under The Charles Schwab Corporation's Severance Pay Plan or under any other severance or termination pay or benefits for which he may be eligible from the Company or any affiliates or subsidiaries. Mr. Pottruck expressly agrees that he waives

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any such rights or benefits in exchange for the rights and benefits provided under this Agreement.

5. Retirement Savings and Investment Plan. Mr. Pottruck's active participation in The SchwabPlan Retirement Savings & Investment Plan shall cease as of September 30, 2004. Mr. Pottruck will not receive matching contributions or any discretionary profit sharing for 2004. Mr. Pottruck's vested interest in Company contributions (other than matching contributions, which are automatically fully vested) will be determined based on his service through the Termination Date.

6. The Charles Schwab Corporation Stock Incentive Plans. Notwithstanding anything to the contrary in this Agreement, Mr. Pottruck agrees and acknowledges that (i) the nonqualified stock option agreement dated May 11, 1998 for 3,111,093 shares of Schwab Stock with an exercise price of \$7.708 per share is hereby amended to provide that the options under such agreement will expire and will be exercisable no later than the date that is two (2) years after the Effective Date; and (ii) the incentive stock option agreement dated May 11, 1998 for 38,907 shares of Schwab Stock with an exercise price of \$7.708 is hereby amended to provide that the options under such agreement will expire and will be exercisable no later than the date that is three (3) months after the Effective Date. Under the provisions of The Charles Schwab Corporation Stock Incentive Plans, Mr. Pottruck retains the right to exercise vested options for a specific period of time after his Termination Date. Except as provided in Paragraph 2(vi), any stock options that are not vested as of his Termination Date or as a result of his Termination Date are immediately canceled. (For clarity, as an example, this means that if a stock option plan provides for accelerated vesting upon an employee's termination by virtue of being age fifty (50) and having at least seven (7) years of service with the Company, then such a provision shall not be overridden by this Agreement, except as provided in Paragraph 8). The applicable Stock Option Agreement(s) and Plan documents govern the vesting and exercising of stock options. Except as provided in Paragraph 2(v), any performance shares that are not vested as of Mr. Pottruck's Termination Date or as a result of his Termination Date are immediately forfeited. The LTIP Award Agreement and Plan document govern the vesting of LTIP units. Any LTIP units that are not vested as of Mr. Pottruck's Termination Date or as a result of his Termination Date are immediately forfeited.

7. Tax Treatment. Mr. Pottruck understands and agrees that Schwab is providing no tax or legal advice, and makes no representations regarding tax obligations or consequences, if any, related to any part of this Agreement. Mr. Pottruck further agrees that he will be responsible for his tax obligations or consequences that may arise from this Agreement (including without limitation the accelerated vesting of performance shares under Section 2), and he shall not seek any indemnification from Schwab in this regard. Mr. Pottruck further agrees to indemnify and hold Schwab harmless from any claims, demands, deficiencies, levies, assessments, executions, judgments, penalties, taxes, attorneys' fees or recoveries by any governmental entity against Schwab for any failure by Mr. Pottruck to pay his taxes due and owing, if any, as a result of any payments under this Agreement.

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8. **Early Termination Date.** Mr. Pottruck understands and agrees that, except as permitted under Paragraph 9, if he accepts a position as an employee, acts as an independent contractor, consultant or sole proprietor, or acts as an officer, director, or partner in another public or privately held company at any time prior to January 31, 2007, he will notify Carrie Dwyer, EVP Corporate Oversight (or her designee), at (415) 636-5488 immediately. If Mr. Pottruck accepts any such position or otherwise begins to act in any such capacity with a company or entity that is *not* a Competitor Business (Competitor Business is defined for purposes of this Agreement on Exhibit A to this Agreement) then, except as otherwise provided in Paragraph 9, below, Mr. Pottruck's Termination Date will be deemed to be the next business day following his acceptance of and commencement of service in such position and he will receive a lump sum payment for the unpaid portion of the remainder of any payments due under Paragraph 2 (ii) and (iv), less usual and customary taxes, withholding and authorized deduction. (For avoidance of doubt, Mr. Pottruck will not be eligible for any further continued benefits pursuant to Paragraph 2(iii) or any further continued vesting pursuant to Paragraph 6 as of the new Termination Date, except as may be provided in the applicable plan or agreement, and resulting from the Termination Date.) The mere formation of a business entity in which Mr. Pottruck is a sole proprietor, member, shareholder, or employee will not, in and of itself, accelerate the Termination Date; however, Mr. Pottruck remains subject to the notification provisions of this Paragraph 8 and the provisions of Paragraph 9 with respect to any such business entity. If Mr. Pottruck accepts any such position or otherwise begins to act in any capacity *with* a Competitor Business at any time prior to January 31, 2007 without the written authorization of Carrie Dwyer (or her designee), his Termination Date will be deemed to be the next business day following his acceptance of such position, all remaining payments, benefits and continued vesting of performance shares and stock options under this Agreement shall cease immediately and all performance shares described in Paragraph 2(v), stock options described in Paragraph 2(vi) and LTIP units described in Paragraph 2(vii) that have not vested as of his Termination Date will be forfeited and cancelled as if Mr. Pottruck had been terminated for cause under the terms of the applicable performance share and stock option agreements. (For avoidance of doubt, Mr. Pottruck will not receive any payments for the unpaid portion of the remainder of the payments under paragraph 2(ii) or (iv), his eligibility for any further benefits and vesting will cease as of the new Termination Date, any unvested performance shares, stock options, and LTIP units will be immediately canceled, and Mr. Pottruck shall not be entitled to any additional vesting as set forth in any retirement or any other provision under the applicable award agreements.) If Mr. Pottruck undertakes any activities in violation of this Paragraph 8, Paragraph 9, or this Agreement, his Termination Date will be accelerated immediately and all payments and benefits from the Company to Mr. Pottruck under this Agreement shall cease as of the new Termination Date and all such performance shares, stock options, and LTIP units that have not vested as of his Termination Date will be forfeited and cancelled as if Mr. Pottruck had been terminated for cause under the terms of the applicable agreements.

9. **Outside Business Activity.** Notwithstanding the preceding Paragraph 8, Mr. Pottruck acknowledges while he is employed by the Company pursuant to the terms of this Agreement, he must continue to seek pre-approval from the Company for any

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outside business activities he may wish to undertake with other groups, organizations, companies, associations, etc., (non-profit or otherwise), in accordance with the Company's Compliance policies, regardless of whether he would receive compensation for the activity. For any type of proposed outside business activity, Mr. Pottruck agrees to inform Carrie Dwyer, EVP Corporate Oversight (or her designee), in advance, of the scope of the business activity, the time commitment, and his anticipated compensation, if any, for that activity. Outside business activity for purposes of this Paragraph 9 includes participation as a member of the Board of Directors of, or services as a consultant to, an outside organization and speaking engagements for any outside organization. Mr. Pottruck acknowledges and agrees that during the time he is employed by the Company pursuant to the terms of this Agreement, he shall not serve as a member of the Board of Directors of, or provide any services as a consultant to, any financial services firms that currently compete, or have announced their intention to compete, directly and materially with the Company. Schwab agrees that it will not unreasonably withhold its approval for Mr. Pottruck to participate on the Board of Directors of, provide services as a consultant to, or give speeches to non-profits and non-financial services firms, or financial services firms that do not currently directly compete with the Company.

10. No Filings. Mr. Pottruck represents that as of the Execution Date, he has not filed any action, claim, charge, or complaint against Schwab or any other Releasee identified in Paragraph 12 below, with any local, state, or federal agency, self-regulatory organization (SRO), or court and that he will not make such a filing at any time hereafter based upon any events or omissions occurring prior to and up to the Execution Date. In the event that any agency or court assumes jurisdiction of any lawsuit, claim, charge or complaint, or purports to bring any legal or regulatory proceedings against Schwab or any other Releasee identified in Paragraph 12 below on Mr. Pottruck's behalf, he promptly will request that the agency, SRO, or court withdraw from or dismiss the lawsuit, claim, charge, or complaint with prejudice.

11. Covenant Not to Sue. Mr. Pottruck covenants that he will not file, participate in, or instigate the filing of any lawsuits, complaints or charges by himself or by any other person or party in any state or federal court or any proceedings before any local, state, or federal agency, or SRO, except as required by law, claiming that Schwab or any other Releasee identified in Paragraph 12 below has violated any law or obligation based upon events or omissions occurring prior to and including the effective date of this Agreement. Notwithstanding the provisions of this Paragraph, nothing in this Agreement shall be construed to preclude Mr. Pottruck from timely filing a complaint with the U.S. Equal Employment Opportunities Commission (EEOC) or assisting any investigation conducted by the EEOC to the extent that such rights are not subject to waiver. In the event Mr. Pottruck breaches the covenant contained in this Paragraph 11, Mr. Pottruck agrees that he will indemnify Schwab and any other Releasee identified in Paragraph 12 below for all damages, fees, costs and expenses, including legal fees, incurred by Schwab or any other Releasee identified in Paragraph 12 below, in defending, participating in, or investigating any matter or proceeding covered by this Paragraph 11.

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12. Complete Release by Mr. Pottruck. Mr. Pottruck for himself and for his heirs, representatives, attorneys, executors, administrators, successors, and assigns releases Schwab, and all of its affiliates, subsidiaries, divisions, parent corporations, and stockholders, officers, directors, partners, servants, agents, employees, representatives, attorneys, employee welfare and retirement plans and the respective plan administrators and fiduciaries, past, present, and future, all persons acting under, by, through, or in concert with any of them, and each of them (all of whom are hereinafter referred to as Releasees), from any and all actions, causes of action, grievances, obligations, costs, expenses, damages, losses, claims, liabilities, suits, debts, demands, and benefits (including attorneys fees and costs actually incurred), of whatever character, in law or in equity, known or unknown, suspected or unsuspected, matured or unmatured, of any kind or nature whatsoever, based on any act, omission, event, occurrence, or nonoccurrence from the beginning of time up to and including the Execution Date of this Agreement, including but not limited to any claims or causes of action arising out of or in any way relating to Mr. Pottruck's employment relationship with Schwab or any other Releasee.

This release of claims includes, but is not limited to, claims for breach of any implied or express contract or covenant; claims for promissory estoppel; claims of entitlement to any pay (other than the payments promised in Paragraph 2); claims of wrongful denial of insurance and employee benefits, or any claims for wrongful termination, public policy violations, defamation, invasion of privacy, fraud, misrepresentation, unfair business practices, emotional distress or other common law or tort matters; claims of harassment, retaliation or discrimination under federal, state, or local law; claims based on any federal, state or other governmental statute, regulation or ordinance, including, without limitation, Title VII of the Civil Rights Act, as amended, the Age Discrimination in Employment Act, the Older Worker Benefit Protection Act, the Labor Management Relations Act, the Americans with Disabilities Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, the California Labor Code, the California Government Code, and the Employee Retirement Income Security Act. It is expressly understood by Mr. Pottruck that among the various rights and claims being waived by Mr. Pottruck in this Agreement are those for age discrimination arising under the Age Discrimination in Employment Act of 1967 (29 U.S.C. sec. 621, *et seq.*), as amended.

13. Release of Unknown Claims. In order to make this release effective as to unknown, unsuspected or concealed claims, Mr. Pottruck expressly waives the benefits of Section 1542 of the California Civil Code, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

In making this waiver, Mr. Pottruck acknowledges that he may hereafter discover facts in addition to or different from those which he now believes to be true with respect to the subject matter released herein, but agrees that he has taken that possibility into

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account in reaching this Agreement and that, notwithstanding the discovery or existence of any such additional or different facts, Mr. Pottruck fully, finally, and forever settles and releases any and all such claims.

14. Successors. This Agreement shall be binding upon the Parties, and their heirs, representatives, executors, administrators, successors, insurers, and assigns, and shall inure to the administrators, predecessors, successors, and assignees of each of the Parties. In the event of Mr. Pottruck's death, the benefits payable to Mr. Pottruck under this Agreement shall inure to the benefit of his heirs, successors, and assigns.

15. Indemnification. Nothing in this Agreement (including the release contained herein) shall be construed to limit Mr. Pottruck's right to indemnification or contribution pursuant to Delaware or California law or the Company's bylaws arising from actions actually or allegedly taken in the scope of his employment with the Company.

16. Release by Schwab. In consideration of this Agreement, Schwab, its former and current officers, directors, employees, representatives, attorney, subsidiaries, insurers, predecessor, affiliates, and successors hereby release and discharge Mr. Pottruck from any and all claims, liabilities, or obligations of every kind and nature, whether now known or unknown, suspected or unsuspected, arising out of or in connection with or relating to Mr. Pottruck's employment with Schwab, provided, however, that Schwab, its former and current officers, directors, employees, representatives, attorneys, subsidiaries, insurers, predecessor, affiliates, and successors do not release Mr. Pottruck from any misconduct other than ordinary negligence in the performance of his duties at Schwab, nor any loan, mortgage, or other personal obligation incurred with Schwab or any affiliated institution.

17. No Attorneys Fees and Costs. The Parties will bear their own respective costs and fees, including attorney's fees incurred in connection with the negotiation and execution of this Agreement, except that Mr. Pottruck will be reimbursed for his attorneys' fees reasonably incurred in the negotiation and execution of this Agreement in an amount not to exceed \$75,000, subject to review and approval by Carrie Dwyer (or her designee) of all appropriately documented invoices for the claimed attorneys' fees.

18. Non-Disparagement and Cooperation.

18.1 Non-Disparagement.

Mr. Pottruck shall not make any oral or written statement which (a) is disparaging to the Company, or to the past or present directors, officers or employees of the Company, or any Releasee as defined above, or (b) is calculated to, or which foreseeably will, disrupt, disparage, damage, impair or otherwise interfere with the business or reputation of the Company, its past or present directors, officers or employees, or any Releasee as defined above, or (c) will disrupt, impair or otherwise interfere with the

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Company's relationships with its employees, customers, agents, representatives or vendors (individually and collectively disparaging statements). Mr. Pottruck also agrees that he will direct his immediate family members and representatives not to make any disparaging statements. Mr. Pottruck further agrees to refrain from acting as a source (attributable or otherwise) or engaging in any formal or informal dialogue with the press or media regarding his experiences with or at Schwab that in any way injure or are detrimental to Schwab, or its past or present directors, officers or employees of the Company, or any Releasee as defined above, or regarding any information Mr. Pottruck may have acquired (first hand or otherwise) concerning Schwab operations, marketing or advertising strategies or plans, financial performance, recruitment or retention strategies, or internal policies and procedures or any other Schwab information (including but not limited to Schwab services, products, or offerings referenced in this Agreement). Nothing herein shall preclude Mr. Pottruck from cooperating with a governmental or SRO, in an investigation initiated by such agency, or testifying in a court of law if compelled by legal process to testify as a witness in a lawsuit in which Schwab or any Releasee is a defendant.

18.2 Cooperation.

Mr. Pottruck agrees not to encourage or assist in any litigation against Schwab or any Releasee or provide testimony in any matter in which Schwab or any Releasee has an interest unless he is required by law to do so. Mr. Pottruck agrees to cooperate fully with any Releasee, and any corporate affiliate of any Releasee, specifically including any attorney retained by any of the Releasees, in connection with any pending or future litigation or investigatory matter (including but not limited to any Schwab investigation into Compliance or other policy violations) in which and to the extent Schwab reasonably deems his cooperation to be necessary. Mr. Pottruck acknowledges and agrees that such cooperation may include, but shall in no way be limited to, Mr. Pottruck being available for an interview with any of the Releasees, or any attorney or agent retained by any of the Releasees, providing to any of the Releasees any documents in his possession or under his control relating to the litigation or investigatory matter, and providing truthful sworn statements in connection with the litigation or investigatory matter. Mr. Pottruck agrees to appear and give truthful testimony as a witness in any judicial, administrative, quasi-governmental, or investigatory proceeding as requested by Schwab. He also agrees, upon request by Schwab, to provide information to Schwab that he learned during the course of his employment relationship with Schwab. If Mr. Pottruck is served with process concerning any matter in which Schwab or any Releasee has an interest, he agrees to immediately notify Schwab. Schwab will reimburse Mr. Pottruck for reasonable travel expenses in accordance with the travel policies then in effect. This reimbursement is for Mr. Pottruck's convenience. Schwab confirms its expectation that Mr. Pottruck will provide truthful information in accordance with this paragraph.

18.3 Non-Disparagement by Schwab.

The current members of Schwab's Board of Directors and each current member of Schwab's Executive Committee will not make any oral or written statement to the press

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or media or to any persons not employed by the Company that is disparaging to Mr. Pottruck. Nothing herein shall preclude each current member of the Board of Directors and each current Executive Committee member from making disclosures as are necessary to Schwab's insurance carrier or cooperating with a governmental or SRO, in an investigation initiated by such agency, or testifying in a court of law if compelled by legal process to testify as a witness in a lawsuit.

19. Confidential Information. Mr. Pottruck acknowledges that by reason of his employment as Chief Executive Officer with the Company (and, before attaining that position, as a senior executive with the Company), he had access to and did receive knowledge of Schwab's trade secrets and proprietary and confidential information (Confidential Information). Mr. Pottruck acknowledges and affirms his obligations to maintain the confidentiality of Confidential Information and not to use it or to disclose it to any third party in the future. Mr. Pottruck understands and agrees that the term Confidential Information includes, but is not limited to, customer identity, customer account, personal or business information, customer lists, lead information, employee information (employment, personal, financial or account information), employee lists, know-how, computer hardware or software configuration or design, research and development, product designs, plans and/or methods (whether currently in use or in development), source codes, future developments, costs, profits, account valuation, pricing and pricing structure, technical, marketing, business, financial, or other information that constitute trade secret information, or information not available to competitors of the Company, the use or disclosure of which might reasonably be construed to be contrary to the interests of the Company. Mr. Pottruck also agrees that Confidential Information is a valuable and unique asset that Schwab actively protects and that unauthorized use and/or disclosure of Confidential Information could cause immediate and irreparable harm to Schwab.

20. Non-Solicitation of Employees. Mr. Pottruck agrees that any attempt on his part to induce any employee, consultant or contractor to leave his/her assignment or employment with any Schwab entity, or any other effort by Mr. Pottruck to interfere in those relationships will be harmful and damaging to the Schwab entity. Therefore Mr. Pottruck will not, at any time up to and including January 31, 2007, in any way (directly or indirectly), on his own behalf or on behalf of any other person or entity solicit or attempt to solicit or induce (which shall include, but is not limited to, contact or communication in any manner for the purpose of soliciting or inducing) any employee, vendor or independent contractor of, or consultant to a Schwab entity to leave his or her employment or assignment. Nothing in this paragraph is intended to prevent Mr. Pottruck from discussing possible employment or assignments with any employee, consultant, or independent contractor who contacts him directly of his or her own volition without Mr. Pottruck's solicitation or attempted solicitation of him or her.

21. Non-Solicitation of Customers. Mr. Pottruck acknowledges that his position as Chief Executive Officer with the Company (and, before attaining that position, as a senior executive with the Company) has been special, unique, and intellectual in character, has placed him in a position of particular confidence and trust

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with Schwab customers, and has given him unique access to confidential and proprietary information concerning, among other things, Schwab's business and customers. Accordingly, Mr. Pottruck will not, at any time up to and including January 31, 2007, directly or indirectly, either for himself or for any other person or entity, (i) make known to any person, firm, or corporation the names or addresses of or any information pertaining to the Company's customers (including any person or entity who during the twelve (12) months prior to such time was a customer of any Schwab affiliate or subsidiary) or (ii) solicit or attempt to solicit (which shall include, but is not limited to, contact or communication in any manner for the purpose of soliciting or inducing) any of the Company's customers in an attempt to divert, transfer, or otherwise take away business or prospective business from Schwab, including without limitation those on whom he called or whom he solicited or with whom he became acquainted while engaged as an employee with the Company.

22. Injunctive Relief. Mr. Pottruck acknowledges and agrees that the restrictions contained in Paragraphs 18, 19, 20, and 21 are material inducements to the Company's willingness to enter into this Agreement and necessary to protect the good will, trade secrets, and confidential and proprietary information of the Company. Mr. Pottruck further acknowledges that the restrictions contained in these Paragraphs are reasonable in scope and duration, will not prevent him from earning a livelihood during the applicable period of restriction, are necessary to protect the legitimate interests of the Company, and that any breach by Mr. Pottruck of any provision contained in Paragraphs 18, 19, 20, and 21 will result in immediate irreparable injury to the Company for which a remedy at law will be inadequate. Accordingly, Mr. Pottruck acknowledges that the Company shall be entitled to seek permanent injunctive relief against him in the event of any breach or threatened breach by Mr. Pottruck of the provisions of Paragraphs 18, 19, 20, or 21 in addition to any other remedy that may be available to the Company, whether at law or in equity. The provisions of Paragraphs 18, 19, 20, or 21 shall remain unmodified and in full force and effect following the Termination Date. It is the intention of the Parties to this Agreement that the covenants and restrictions set forth in Paragraphs 18, 19, 20, and 21 be given the broadest interpretation permitted by law.

23. Return of Confidential and Proprietary Information. Mr. Pottruck acknowledges that he has returned to Schwab any and all property, files, materials, records, manuals, written communications, or other items (including hard copy and electronic documents, disks, and files) that he received, obtained and/or created as part of his employment (excluding information Mr. Pottruck received about insured benefits) or that are in his possession or control belonging to Schwab or any of the Releasees, including but not limited to company sponsored credit cards or calling cards, pagers, computer software or hardware, keys, and identity badges. Mr. Pottruck agrees that in the event he later locates any such document, he will return it to Schwab immediately. The Parties agree to mutually cooperate in the Company's retention and protection of any material that may be necessary in the event of future circumstances that require reference to such materials.

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24. Breach of Agreement. If Mr. Pottruck undertakes any activities in violation of Paragraphs 8, 9, 18, 19, 20, or 21 or otherwise breaches any of his obligations under this Agreement, his Termination Date will be accelerated immediately and all payments and other benefits conferred under this Agreement (with the exception of unused vacation and floating holidays as set forth in Paragraph 3) shall cease; provided, however, that such breach by Mr. Pottruck and/or cessation of payments and benefits by the Company will not affect the validity or enforceability of the Parties' commitments under this Agreement (including but not limited to Mr. Pottruck's general release and waiver of claims contained herein).

25. Corporate Approvals. The Company represents that it has obtained all necessary Corporate approvals in order to enter this Agreement.

26. Licenses. Within thirty (30) days of Mr. Pottruck's Termination Date, a Form U-5 will be filed with the Central Registration Depository terminating his registration. Mr. Pottruck agrees that prior to Schwab's filing a Form U-5 terminating his registration, he will ensure compliance with all continuing education requirements for the licenses he holds. Additionally, Mr. Pottruck agrees that to the extent he maintains brokerage accounts at financial services firms other than the Company, he will identify the outside accounts and arrange for the submission of duplicate statements and trade confirmations for all outside accounts to the Chief Compliance Officer, Charles Schwab & Co., Inc., 101 Montgomery Street, SF101MNT-23-239, San Francisco, CA 94104. In the event Mr. Pottruck fails to meet the continuing education requirements, ensure that duplicate statements and trade confirmations are provided to Schwab, or violates any Company policy, the Company will immediately file a Form U-5 terminating his registration.

27. Agreement is Knowing and Voluntary. Mr. Pottruck understands and agrees that he:

- a. has had 21 days within which to consider this Agreement before executing it;
- b. has carefully read and fully understands all of the provisions of this Agreement;
- c. is, through this Agreement, releasing Schwab and the other Releasees from any and all claims he may have against Schwab and the other Releasees, as stated herein, that have arisen up to the date of execution of this Agreement;
- d. knowingly and voluntarily agrees to all of the terms set forth in this Agreement;
- e. knowingly and voluntarily intends to be legally bound by the same;

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- f. was advised, and hereby is advised in writing, to consider the terms of this Agreement and consult with an attorney of his choice prior to executing this Agreement; and
- g. has seven (7) days after signing this Agreement to revoke it; the Agreement will not become effective or enforceable until the seven-day revocation period has passed. Revocation can be made by delivering written notice of revocation to Carrie Dwyer, EVP Corporate Oversight, Charles Schwab & Co., Inc., 101 Montgomery Street, SF120KNY-29-119, San Francisco, CA 94104. For this revocation to be effective, written notice must be received by Carrie Dwyer no later than the close of business on the seventh (7th) calendar day after Mr. Pottruck signs this Agreement. If Mr. Pottruck revokes this Agreement, it shall not be effective or enforceable and Mr. Pottruck will not receive the benefits provided herein.

28. Full and Independent Knowledge. The Parties represent that they have discussed thoroughly all aspects of this Agreement with their respective attorneys, fully understand all of the provisions of the Agreement, and are voluntarily entering into this Agreement.

29. No Representations. The Parties acknowledge that, except as expressly set forth herein, no representations of any kind or character have been made to induce the execution of this Agreement.

30. Ownership of Claims. Mr. Pottruck represents that he has not transferred or assigned, or purported to transfer or assign, any claim released by this Agreement. Mr. Pottruck further agrees to indemnify and hold harmless each and all of the Releasees against any and all claims based upon, arising out of, or in any way connected with any such actual or purported transfer or assignment.

31. Non-Admission of Liability. Neither Party, by entering into and fulfilling this Agreement, admits to any wrongdoing or liability and each Party denies all allegations of wrongdoing.

32. Other Representations. Mr. Pottruck represents that he has no pending claim for any work-related injury, and that his is not aware of any existing injury that would give rise to such a claim, whether under applicable worker's compensation laws or otherwise.

33. Governing Law. This Agreement shall be governed by and interpreted under the laws of the State of California applicable to contracts made and to be performed entirely within California.

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34. **Arbitration.** Except with respect to judicial injunctive relief as provided in Paragraph 22 above, any dispute or breach arising out of the interpretation or performance of this Agreement shall be settled by arbitration before a single arbitrator in accordance with the Commercial Arbitration Rules of the American Arbitration Association in San Francisco, California, to be administered by the American Arbitration Association or JAMS/Endispute, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. With the exception of initial forum fees, the Company shall bear all costs imposed by the American Arbitration Association or JAMS/Endispute to administer the arbitration including arbitrator's fees. The parties shall be allowed to conduct such discovery as permitted by the Commercial Arbitration Rules of the American Arbitration Association or by the arbitrator. At the conclusion of arbitration, the arbitrator shall issue an award in writing setting forth the basis for the award. The decision of the arbitrator shall be final and conclusive, and the Parties waive the right to trial de novo or appeal. Further, the prevailing party shall be entitled to recover its reasonable costs and attorney's fees. Excepted from this Paragraph is a complaint with the EEOC, including a challenge to the validity of this Agreement under the law, to the extent such an exception is required by law.

35. **Waiver.** The failure of any Party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver thereof or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

36. **Miscellaneous.**

a. Both parties have participated in the drafting of this Agreement. The language of all parts in this Agreement shall be construed as a whole, according to its fair meaning, and not strictly for or against either party.

b. Should any provision in this Agreement be declared or determined to be illegal or invalid, the validity of the remaining parts, terms, or provisions shall not be affected thereby, and the illegal or invalid part, term, or provision shall be deemed not to be part of this Agreement, and all remaining provisions shall remain valid and enforceable.

c. This Agreement sets forth the entire agreement between the Parties and fully supersedes any and all prior agreements and understandings, written or otherwise, between the Parties pertaining to the subject matter of this Agreement.

d. The headings used herein are for reference only and shall not affect the construction of this Agreement.

37. **Counterparts.** This Agreement may be executed in one or more counterparts, by facsimile or original signature, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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36. **Notification.** Notice to be given under this Agreement to Schwab shall be to Carrie Dwyer, EVP Corporate Oversight, Charles Schwab & Co., Inc., 101 Montgomery Street, SF 120KNY-29-119, San Francisco, CA 94104 and to Mr. Pottruck shall be to Paul Escobosa, Coblenz, Patch, Duffy & Bass, LLP, One Ferry Building, Suite 200, San Francisco, CA 94111-4213.

PLEASE READ CAREFULLY. THIS AGREEMENT INCLUDES THE RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

DAVID S. POTTRUCK

/s/ David S. Pottruck

Date: August 2, 2004

Approved as to Form and Content:

/s/ Paul Escobosa

Paul Escobosa

Attorney for David S. Pottruck

CHARLES SCHWAB & CO., INC.

By: /s/ Christopher V. Dodds

Its: EVP Chief Financial Officer

Date: August 3, 2004

THE CHARLES SCHWAB CORPORATION

By: /s/ Christopher V. Dodds

Its: EVP Chief Financial Officer

Date: August 3, 2004

By: /s/ Carrie E. Dwyer

Its: EVP, General Counsel and Secretary

Date: August 3, 2004

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EXHIBIT A COMPETITOR BUSINESSES

Except as otherwise agreed to in writing by an authorized representative of the Company, a Competitor Business will be defined as follows: 1) E*Trade Financial Corporation; E*Trade Financial Corporate Services, Inc.; E*Trade Access, Inc.; E*Trade Brokerage Holdings, Inc.; TD Waterhouse Investor Services, Inc.; Ameritrade Online Holdings Corporation; Ameritrade Advisory Services; Fidelity Brokerage Services, LLC; Fidelity Investments Institutional Services Company, Inc.; 2) any other company that is a financial institution regulated or registered by the federal banking regulators, the Securities Exchange Commission, the Commodity Futures Trading Commission, the National Association of Securities Dealers, or any equivalent state law that allows individuals or institutions to place or process orders for securities and/or other financial instruments (including, but not limited to banking functions and instruments) through any medium now known or later developed; or 3) any business that is determined in Schwab's sole and reasonable discretion to be competitive with the business activities of the Company or its affiliates or subsidiaries.

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THE CHARLES SCHWAB CORPORATION

CORPORATE EXECUTIVE BONUS PLAN

(As Amended on February 23, 2005,

Subject to Stockholder Approval)

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SECTION 1. PURPOSE OF THE PLAN

The Charles Schwab Corporation Corporate Executive Bonus Plan (the Plan) is established to promote the interests of The Charles Schwab Corporation and its Subsidiaries (collectively the Company), by creating an incentive program to (a) attract and retain employees with outstanding competencies who will strive for excellence (b) motivate those individuals to exert their best efforts on behalf of the Company by providing them with compensation in addition to their base salaries; and (c) further the identity of interests of such employees with those of the Company's stockholders through a strong performance-based reward system.

SECTION 2. ADMINISTRATION OF THE PLAN

The Compensation Committee of the Board of Directors of the Company (the Committee) shall administer the Plan. The Committee shall be composed solely of two or more outside directors within the meaning of Treasury Regulations § 1.162-27 (or any successor regulation) and shall be appointed pursuant to the Bylaws of the Company. The members of the Committee shall be ineligible for awards under this Plan for services performed while serving on the Committee. The Committee shall have discretionary authority to interpret the Plan, establish rules and regulations to implement the Plan, and make all determinations deemed necessary or advisable for the administration of the Plan, in its sole discretion. Decisions of the Committee shall be final and binding on all parties who have an interest in the Plan.

SECTION 3. ELIGIBILITY FOR AWARDS

(a) Eligibility Requirements. Awards under the Plan may be granted by the Committee to those Employees on the Executive Committee or holding Executive Vice President or comparable executive-level positions with the Company. Except in the event of retirement, death, or disability, an individual in these positions shall be eligible to participate in the Plan if he or she is an Employee of the Company on the last day of the performance period. An individual who is on a leave of absence shall remain eligible, but his or her award shall be adjusted as provided in Section 4(g).

(b) Definition of Employee. For purposes of the Plan, an individual shall be considered an Employee if he or she is employed by the Company or other business entity in which the Company shall directly or indirectly own, at the time of determination, stock possessing 50% or more of the total combined voting power of all classes of stock or other ownership interest (each a Subsidiary). No award may be granted to a member of the Company's Board of Directors except for services performed as an employee of the Company.

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SECTION 4. BONUS AWARDS

(a) Form of Awards. Bonus awards under this Plan shall be paid in cash, less applicable withholdings and deductions.

(b) Target Award Amounts. Target award amounts shall be based on a percentage of each eligible Employee's annual base salary for each performance period as determined by the Committee in its sole discretion no later than 90 days after the commencement of such performance period but in no event after 25% of the performance period has elapsed.

(c) Bonus Formula. The formula used to determine bonus awards for each eligible Employee shall be determined according to a matrix or matrices that shall be adopted by the Committee within 90 days of the commencement of each performance period but in no event after 25% of the performance period has elapsed. The matrix or matrices may be different for each eligible Employee and shall be based on one or more objective performance criteria to be selected by the Committee from among the following: pre-tax operating profit margin, pre-tax reported profit margin, after-tax operating profit margin, after-tax reported profit margin, pre-tax operating profits, pre-tax reported profits, cash flow, revenues, revenue growth, operating revenue growth, client net new asset growth, return on assets, return on equity, return on investment, stockholder return and/or value, earnings per share, conversions of and/or increase in client assets, sales (of products, offers, or services) and changes between years or periods that are determined with respect to any of the above-listed performance criteria. Performance criteria may be measured solely on a corporate, subsidiary, enterprise or business unit basis, or a combination thereof. Further, performance criteria may reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group of entities or other external measure of the selected performance criteria. The formula for any such award may include or exclude items to measure specific objectives, such as losses from discontinued operations, extraordinary gains or losses, the cumulative effect of accounting changes, acquisitions or divestitures, foreign exchange impacts and any unusual, nonrecurring gain or loss, and will be based on accounting rules and related Company accounting policies and practices in effect on the date the formula is approved by the Committee. Awards shall be determined by applying the bonus formula to the target award amount of each eligible Employee. Except in the case of the Chief Executive Officer, payouts described in this subsection shall be calculated and paid on the basis of a quarterly or annual performance period, or a combination thereof, as determined by the Committee in its sole discretion. In the case of the Chief Executive Officer, payouts described in this subsection shall be made on an annual basis, based on the Company's results for the full year. Bonus awards for any eligible Employee shall not be provided under this Plan if such awards are separately determined under an employment agreement or other arrangement.

(d) Maximum Award Amounts. The maximum award that may be paid to any eligible Employee (other than the Chief Executive Officer) under this Plan for any calendar year shall not exceed \$8 million. The maximum award that may be paid to the

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Chief Executive Officer under this Plan for any calendar year shall not exceed \$15 million.

(e) Power to Reduce Bonus Amounts. Notwithstanding anything to the contrary contained in this Plan, the Committee shall have the power, in its sole discretion, to reduce the amount payable to any eligible Employee including the Chief Executive Officer (or to determine that no amount shall be payable to such eligible Employee) with respect to any award prior to the time the amount otherwise would have become payable hereunder. Such reductions may be based upon the recommendations of the Chief Executive Office. In the event of such a reduction, the amount of such reduction shall not increase the amounts payable to other eligible Employees under the Plan.

(f) Entitlement to Bonus. No eligible Employee shall earn any portion of a bonus award under the Plan until the last day of the relevant performance period and only if the Committee has approved the bonus award and, to the extent required by section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), has certified that the applicable performance criteria have been satisfied.

(g) Termination of Employment and Leaves of Absence. Except in the event of retirement, death, or disability, if an Employee ceases to be employed by the Company for any reason on or before the date when the bonus is earned, then he or she shall not earn or receive any bonus under the Plan. If an eligible Employee is on a leave of absence for a portion of the relevant performance period, the bonus to be awarded shall be prorated to reflect only the time when he or she was actively employed and not any period when he or she was on leave. In the event of retirement, death, or disability before the last day of the relevant performance period, the Committee shall have the sole discretion to award any bonus.

SECTION 5. PAYMENT OF BONUS AWARDS

Bonus awards shall be paid to each eligible Employee as soon as practicable after the close of the performance period, regardless of whether the individual has remained in Employee status through the date of payment.

SECTION 6. GENERAL PROVISIONS

(a) Plan Amendments. The Committee may at any time amend, suspend or terminate the Plan, provided that it must do so in a written resolution and such action shall not adversely affect rights and interests of Plan participants to individual bonuses allocated prior to such amendment, suspension or termination. Stockholder approval shall be obtained for any amendment to the extent necessary and desirable to qualify the awards hereunder as performance-based compensation under section 162(m) of the Code and to comply with applicable laws, regulations or rules.

(b) Benefits Unfunded. No amounts awarded or accrued under this Plan shall be funded, set aside or otherwise segregated prior to payment. The obligation to pay the

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bonuses awarded hereunder shall at all times be an unfunded and unsecured obligation of the Company. Eligible Employees shall have the status of general creditors and shall look solely to the general assets of the Company for the payment of their bonus awards.

(c) Benefits Nontransferable. No eligible Employee shall have the right to alienate, pledge or encumber his or her interest in this Plan, and such interest shall not (to the extent permitted by law) be subject in any way to the claims of the Employee's creditors or to attachment, execution or other process of law.

(d) No Employment Rights. No action of the Company in establishing the Plan, no action taken under the Plan by the Committee and no provision of the Plan itself shall be construed to grant any person the right to remain in the employ of the Company or its subsidiaries for any period of specific duration. Rather, each Employee will be employed at will, which means that either such Employee or the Company may terminate the employment relationship at any time and for any reason, with or without cause or notice. Only the Chief Executive Officer has the authority to enter into an agreement on any other terms, and he or she can only do so in a writing signed by him or her. No Employee shall have the right to any future award under the Plan.

(e) Exclusive Agreement. This Plan document is the full and complete agreement between the eligible Employees and the Company on the terms described herein.

(f) Governing Law. The Plan and any actions taken in connection herewith shall be governed by and construed in accordance with the laws of the state of Delaware (without regard to applicable Delaware principles of conflict of laws).

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THE CHARLES SCHWAB CORPORATION

ANNUAL MEETING OF STOCKHOLDERS

Thursday, May 19, 2005

2:00 p.m. (PST)

Four Seasons Hotel

757 Market Street

San Francisco, California

The Annual Meeting of Stockholders will be broadcast over the Internet. For

information about the real-time webcast, visit www.schwabevents.com.

THE CHARLES SCHWAB CORPORATION
101 Montgomery Street
San Francisco, CA 94104

proxy

This proxy is solicited by the Board of Directors for use at the Annual Meeting on May 19, 2005.

The shares of stock you hold in your account, as well as any shares you hold under The Charles Schwab Corporation Dividend Reinvestment and Stock Purchase Plan and/or The SchwabPlan Retirement Savings and Investment Plan will be voted as you specify on the reverse side.

If you sign and return your proxy card and no choice is specified, your shares will be voted FOR Proposals 1, 2 and 3, and AGAINST Proposal 4.

By signing the proxy, you revoke all prior proxies and appoint Charles R. Schwab with full power of substitution, to vote your shares on the matters shown on the reverse side and any other matters which may come before the Annual Meeting and all adjournments.

See reverse for voting instructions.

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COMPANY #

There are three ways to vote your Proxy

Your Internet or telephone vote authorizes the Named Proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

VOTE BY INTERNET <http://www.eproxy.com/sch/> QUICK * EASY *** IMMEDIATE**

Use the Internet to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on May 18, 2005.

Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions the voice provides you.

VOTE BY PHONE TOLL FREE 1-800-560-1965 QUICK * EASY *** IMMEDIATE**

Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week, until 12:00 p.m. (CT) on May 18, 2005.

Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions to obtain your records and create an electronic ballot.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we've provided or return it to The Charles Schwab Corporation, c/o Shareowner ServicesSM, P.O. Box 64873, St. Paul, MN 55164-0873.

If you vote by Internet or Phone, please do not mail your Proxy Card

ð Please detach here ð

The Board of Directors Recommends a Vote FOR Items 1, 2 and 3 and AGAINST Item 4.

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1. Election of directors:	01 Frank C. Herringer	04 Roger O. Walther	“ Vote FOR	“ Vote WITHHELD
	02 Stephen T. McLin	05 Robert N. Wilson	all nominees	from all nominees
	03 Charles R. Schwab		(except as marked)	

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

- | | | | |
|---|-------|-----------|-----------|
| 2. Approval of an amendment to the 2004 Stock Incentive Plan regarding grants to non-employee directors | “ For | “ Against | “ Abstain |
| 3. Approval of amendment to the Corporate Executive Bonus Plan regarding performance measures | “ For | “ Against | “ Abstain |
| 4. Stockholder proposal regarding terms of directors | “ For | “ Against | “ Abstain |

WHEN THIS PROXY IS PROPERLY EXECUTED YOUR SHARES WILL BE VOTED: (1) AS DIRECTED; (2) IF NO DIRECTION IS GIVEN, FOR PROPOSALS 1, 2 AND 3, AND AGAINST PROPOSAL 4; AND (3) ACCORDING TO THE BEST JUDGMENT OF CHARLES R. SCHWAB IF ANY OTHER MATTER COMES BEFORE THE ANNUAL MEETING FOR A VOTE.

Address Change? Mark Box “

Indicate changes below:

Date _____

Signature(s) in Box

Please sign exactly as your name(s) appear on the proxy card. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the proxy.