

SCHWAB CHARLES CORP  
Form DEF 14A  
March 30, 2006  
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**SCHEDULE 14A**

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

Filed by the Registrant

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**The Charles Schwab Corporation**

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THE CHARLES SCHWAB CORPORATION 2006 PROXY STATEMENT

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March 30, 2006

Dear Fellow Stockholders,

We cordially invite you to attend our 2006 annual meeting of stockholders. The meeting will be held on Thursday, May 18, 2006, at 2:00 p.m., Pacific Time, at the Argent Hotel, 50 Third Street, San Francisco, California.

At the meeting we will:

- elect three directors for three-year terms,
- vote on a proposal to amend the certificate of incorporation and bylaws to provide for the annual election of directors,
- vote on four stockholder proposals, and
- consider any other business properly coming before the meeting.

We also will report on our corporate performance in 2005 and answer your questions.

We are pleased to offer you the convenience of viewing our annual meeting by webcast at [www.schwabevents.com](http://www.schwabevents.com). If you prefer to attend the meeting in person, please follow the advance registration instructions as outlined in this proxy statement, as you will need a ticket for admission. We look forward to your participation.

Sincerely,

**CHARLES R. SCHWAB**

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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**NOTICE OF 2006 ANNUAL MEETING OF STOCKHOLDERS**

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The 2006 annual meeting of stockholders of The Charles Schwab Corporation will be held on Thursday, May 18, 2006, at 2:00 p.m., Pacific Time, at the Argent Hotel, 50 Third Street, San Francisco, California, to conduct the following items of business:

- elect three directors for three-year terms,
- vote on a proposal to amend the certificate of incorporation and bylaws to provide for the annual election of directors,
- vote on four stockholder proposals, and
- consider any other business properly coming before the meeting.

Stockholders who owned shares of our common stock at the close of business on March 20, 2006 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**

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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, 2006.

**VOTING YOUR SHARES**

Stockholders who owned the company's common stock at the close of business on March 20, 2006 may attend and vote at the annual meeting. Each share is entitled to one vote. There were 1,287,740,789 shares of common stock outstanding on March 20, 2006.

*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.

- ü You may vote in person at the meeting.



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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 three directors for terms of three years,
- *for* the proposal to amend the certificate of incorporation and bylaws to provide for the annual election of directors, and
- *against* the four stockholder proposals.

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**PROPOSALS TO VOTE ON**

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**ELECTION OF DIRECTORS**

Nominees for directors this year are:

- Nancy H. Bechtle
- C. Preston Butcher
- Marjorie Magner

Each nominee is presently a director of the company and has consented to serve a three-year term.

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

**APPROVAL OF AMENDMENTS TO THE CERTIFICATE OF INCORPORATION AND BYLAWS**

Our board is currently divided into three classes having three-year terms. The company's stockholders approved the election of directors by classes in 1996. 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.

While we believe that such continuity is still a valid concern, the Nominating and Corporate Governance Committee reevaluated our board structure in light of the level of support received for the stockholder proposal calling for the annual election of directors submitted last year by William C. Thompson, Jr., Comptroller, City of New York, on behalf of the Boards of Trustees of the New York City Pension Funds (approximately 57% of votes cast on the proposal). After careful deliberation and evaluation by both the Nominating and Corporate Governance Committee and the Board of Directors, our board approved submitting a proposal to amend the certificate of incorporation and bylaws to provide for the annual election of directors, beginning at the 2007 annual meeting.

To ensure a smooth transition to the system of annual election of the entire board, annual elections would be phased in as current terms expire. Directors elected at the 2004 and 2005 annual meetings would serve the remainder of their three-year terms until 2007 and 2008, respectively, and annual elections would begin for those directors upon expiration of their terms. All directors (including directors elected at this year's annual meeting) would be elected annually beginning in 2009. Directors elected by the board to fill vacancies prior to 2009 would serve for the

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remainder of the term of the class to which the director is elected.

The proposed amendments would delete, beginning with the complete declassification of the board in 2009, the existing requirement that provides, in accordance with the provisions of Delaware law applicable to classified boards of directors, that directors may be removed only for cause. Under Delaware law, directors of companies that do not have classified boards may be removed by stockholders with or without cause. The proposed amendments, if passed, also would eliminate the requirement that the affirmative vote of 80% of all outstanding shares of common stock is necessary to amend the provisions concerning the terms of directors.

The proposed amendments to the company's Fifth Restated Certificate of Incorporation and Third Restated Bylaws are attached to this proxy statement as Exhibit A.

The affirmative vote of 80% of the outstanding shares of common stock is required for approval of this proposal.

*We recommend a vote **for** the approval of the amendments to the certificate of incorporation and bylaws.*

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**PROPOSALS TO VOTE ON**

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**STOCKHOLDER PROPOSALS**

We have been notified that several stockholders intend to present proposals for consideration at the annual meeting. The stockholder proposals and supporting statements appear in italics below, and we present the proposals as they were submitted to us. Our responses are contained immediately after each proposal.

**FIRST STOCKHOLDER PROPOSAL:**

**THE EFFECT OF A FLAT TAX**

Thomas J. Borelli, 173 Oakland Avenue, Eastchester, NY 10709, who holds approximately 233 shares of company stock, has submitted the following proposal for consideration at the annual meeting.

*Stockholder Resolution*

*Whereas:*

*Charles Schwab & Co., Inc. s primary responsibility is to create value for shareholders and should pursue legal and ethical means to achieve that goal, including identifying public policies that would advance shareholder value in a transparent and lawful manner. [See National Legal and Policy Center, [www.nlpc.org/cip.asp](http://www.nlpc.org/cip.asp) and Free Enterprise Action Fund, <http://www.FreeEnterpriseActionFund.com/about.html>]*

*Whereas:*

*Company profitability and shareholder value are significantly affected by the federal tax code.*

*The current federal corporate income tax is complex, costly, and burdensome for businesses and shareholders. The number of pages of federal tax laws and regulations exceed 50,000. Annual tax compliance costs are estimated to range from \$100 billion and \$200 billion.*

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*The U.S. has the second-highest corporate tax rate among 69 countries [See Chris Edwards, Corporate Tax Reform, Cato Institute Tax & Budget Bulletin No. 21, September 2004, [www.cato.org/pubs/tbb/tbb-0409-21.pdf](http://www.cato.org/pubs/tbb/tbb-0409-21.pdf).]*

*Tax reform is crucial to America's business competitiveness. In 2005, the President's Advisory Panel on Tax Reform developed proposals for simplifying the federal tax system to: reduce compliance costs and burdens to businesses and individuals; promote economic growth and job creation; encourage capital investment; and to strengthen the ability of U.S. companies to compete in foreign markets.*

*Other tax reform proposals include the flat tax proposed in the book entitled Flat Tax Revolution: Using a Postcard to Abolish the IRS (Regnery, 2005) by Steve Forbes.*

*Whereas:*

*Schwab and its shareholders may significantly benefit from significant reform of the federal tax code, such as by replacing the current federal income tax with a flat tax.*

*Resolved: Schwab's shareholders request that, by the 2006 annual shareholder meeting, the Board of Directors make available to shareholders a report on the estimated impacts of a flat tax for Schwab, omitting proprietary information and at a reasonable cost.*

*The report should provide estimates of the impact to Schwab of:*

- 1. Taxing all profits at a flat rate of 17 percent and at other alternative flat rates;*
- 2. Limiting taxable income to only income earned in the U.S.;*
- 3. Replacing depreciation with capital expensing;*
- 4. Abolishing special preferences or loopholes in the corporate tax code;*
- 5. Savings attained from reduced business compliance costs.*

*Stockholder's Statement of Support*

*The flat tax might benefit Schwab and its shareholders by:*

- 1. Increasing corporate dividend payouts to shareholders;*

2. *Reducing corporate tax accounting, planning and compliance costs;*
3. *Reducing incentives for questionable tax avoidance schemes that could backfire and attract litigation and penalties from federal authorities;*
4. *Increasing transparency in accounting and improved planning for investment and other activities;*

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**PROPOSALS TO VOTE ON**

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5. *Spurring economic activity and growth, which might further increase company revenue, expand the financial services industry and increase shareholder value.*

*For more information:*

1. *Chris Edwards, Options for Tax Reform, Policy Analysis No. 536, Cato Institute: Washington, DC, February 24, 2005.*
2. *The Flat Tax: Issue Home Page, Freedom Works, <http://www.freedomworks.org>.*
3. *Daniel Mitchell, Making American Companies More Competitive, Backgrounder 1691, Heritage Foundation: Washington, DC, September 25, 2003.*

**Board of Directors Recommendation Against and Statement of Opposition to the Proposal Regarding the Effect of a Flat Tax**

We do not believe that the annual meeting is an appropriate forum for political debates such as the rate of taxation. Nor do we believe that preparing such analyses on the effect of a flat tax is an effective use of company resources or stockholders' equity.

*We recommend a vote **against** the stockholder proposal regarding the effect of a flat tax.*

**SECOND STOCKHOLDER PROPOSAL:**

**POLITICAL CONTRIBUTIONS**

The International Brotherhood of Teamsters, 25 Louisiana Avenue NW, Washington, D.C. 20001, which holds approximately 1,400 shares of company stock, has submitted the following proposal for consideration at the annual meeting.

*Stockholder Resolution*

*Resolved, that the shareholders of The Charles Schwab Corporation ( Charles Schwab, Schwab or the Company ) hereby request that the Company provide a report, updated semi-annually, disclosing the Company's:*

1. *Policies and procedures for political contributions (both direct and indirect) made with corporate funds.*
2. *Monetary and non-monetary contributions to political candidates, political parties, political committees and other political entities organized and operating under 26 USC Sec. 527 of the Internal Revenue Code including the following:*
  - a. *An accounting of the Company's funds contributed to any of the organizations described above;*
  - b. *Identification of the person or persons in the Company who participated in making the decisions to contribute; and,*
  - c. *The internal guidelines or policies, if any, governing the Company's political contributions.*

*This report shall be presented to the Board of Directors, Audit Committee or other relevant oversight committee, and posted on the Company's website.*

#### *Stockholder's Statement of Support*

*As long-term shareholders of Charles Schwab, we [The International Brotherhood of Teamsters] support policies that apply transparency and accountability to corporate political giving. In our view, such disclosure is consistent with public policy in regard to public company disclosure. Absent a system of accountability, we believe that corporate executives will be free to use the Company's assets for political objectives that are not shared by and may be inimical to the interests of the Company and its shareholders. We are concerned that there is currently no single source of information that provides all of the information sought by this resolution.*

*Working Americans do business with our Company as brokerage clients. They invest their retirement savings through Charles Schwab and own shares in the Company itself. We believe these relationships are based on the expectation of trust in Charles Schwab. In our view, this trust is imperiled by Schwab's partisan role in the national debate on Social Security, which affects the retirement security of the Company's depositors and investors. For this reason, we believe that complete disclosure by the Company is necessary for the Board and its shareholders to be able to fully evaluate the political use of corporate assets.*



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**PROPOSALS TO VOTE ON**

*Our Company has been a member of the Alliance for Worker Retirement Security, which is in our opinion the main business-backed lobby group for privatization of Social Security. Our Company also donated to the Cato Institute (Cleveland Plain Dealer, 12/19/99), the think tank that in our view has moved privatization from the political fringe to the mainstream, and Chairman and CEO Charles R. Schwab has personally contributed to the Club for Growth, which pledged to spend \$10 million to promote privatization (Houston Chronicle, 2/14/05).*

*We believe that Schwab's support for these groups creates a serious potential conflict of interest between the Company's own interest in profits from managing private accounts and the interest of its clients in preserving Social Security in its current form. Particularly under these circumstances, we believe that the Company should fully disclose to its shareholders all political contributions identified in this proposal.*

*We urge your support FOR this critical governance reform.*

**Board of Directors Recommendation Against and Statement of Opposition to the Proposal Regarding Political Contributions**

Please see our statement in opposition to the proposal regarding the effect of a flat tax, above. In addition, we note that in 2005, the company made the following contributions to the types of organizations listed in the stockholder's resolution:

Organization	Amount
Committee on Jobs Government Reform Fund (SF non-partisan business association involved in civic affairs)	\$ 35,000
San Francisco Chamber of Commerce 21 <sup>st</sup> Century Fund	\$ 10,000
Bay Area Democrats	\$ 10,000
<b>Total</b>	<b>\$ 55,000</b>

We believe that our current policies advance the interests of the company's stockholders and clients and that the minimal funding contributed to organizations listed above is a better use of company resources (generally in support of communities in which we live) than the expense of implementing this stockholder proposal.

*We recommend a vote **against** the stockholder proposal regarding political contributions.*

**THIRD STOCKHOLDER PROPOSAL:**

## MAJORITY VOTING

The Sheet Metal Workers National Pension Fund, Edward F. Carlough Plaza, 601 N. Fairfax Street, Suite 500, Alexandria, VA 22314 which holds approximately 32,950 shares of company stock, has submitted the following proposal for consideration at the annual meeting.

### *Stockholder Resolution*

*Resolved: That the shareholders of Charles Schwab ( Company ) hereby request that the Board of Directors initiate the appropriate process to amend the Company s governance documents (certificate of incorporation or bylaws) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders.*

### *Stockholder s Statement of Support*

*Our Company is incorporated in Delaware. Delaware law provides that a company s certificate of incorporation or bylaws may specify the number of votes that shall be necessary for the transaction of any business, including the election of directors. (DGCL, Title 8, Chapter 1, Subchapter VII, Section 216). The law provides that if the level of voting support necessary for a specific action is not specified in a corporation s certificate or bylaws, directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors.*

*Our Company presently uses the plurality vote standard to elect directors. This proposal requests that the Board initiate a change in the Company s director election vote*

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**PROPOSALS TO VOTE ON**

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*standard to provide that nominees for the board of directors must receive a majority of the vote cast in order to be elected or re-elected to the Board.*

*We [The Sheet Metal Workers] believe that a majority standard in director elections would give shareholders a meaningful role in the director election process. Under the Company's current standard, a nominee in a director election can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are withheld from that nominee. The majority vote standard would require that a director receive a majority of the vote cast in order to be elected to the Board.*

*The majority vote proposal received high levels of support last year, winning majority support at Advanced Micro Devices, Freeport McMoRan, Marathon Oil, Marsh & McLennan, Office Depot, Raytheon, and others. Leading proxy advisory firms recommended voting in favor of the proposal.*

*Some companies have adopted board governance policies requiring director nominees that fail to receive majority support from shareholders to tender their resignations to the board. We believe that these policies are inadequate for they are based on continued use of the plurality standard and would allow director nominees to be elected despite only minimal shareholder support. We contend that changing the legal standard to a majority vote is a superior solution that merits shareholder support.*

*Our proposal is not intended to limit the judgment of the Board in crafting requested governance change. For instance, the Board should address the status of incumbent director nominees who fail to receive a majority vote under a majority vote standard and whether a plurality vote standard may be appropriate in director elections when the number of director nominees exceeds the available board seats.*

*We urge your support of this important director election reform.*

**Board of Directors Recommendation Against and Statement of Opposition to the Proposal Regarding Majority Voting**

While majority voting has been a highly debated topic in the investment community, we believe that it would be premature to vote on this proposal until stockholders know and can consider the outcome of the company's proposal regarding declassification of the board. Whether or not directors continue to be elected to three-year terms is significant in deciding how to vote on this proposal, because the consequences of failing to receive a majority vote vary significantly, depending on whether the director has a one-year or three-year term.

The company is incorporated in Delaware. If this proposal were to pass, under Delaware law, a director failing to receive a majority vote (but still receiving a plurality of votes) would continue to serve until such director's successor is elected and qualified. Delaware General Corporation Law Section 141(b). This is known as a "holdover" term. If the company's proposal regarding declassification of the board passes, and directors are

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elected to one-year terms, a director who fails to receive a majority vote would continue to serve with a holdover term of one year. If, however, the company's proposal is defeated, and the board remains classified, a director would serve a holdover term of three years.

In addition, the company's proposal to declassify the board, upon completion of declassification, would eliminate the Delaware law requirement that directors on classified boards be removed in the middle of their terms only for cause. Delaware General Corporation Law Section 141(k). If the current proposal to adopt majority voting were approved but the company's proposal to declassify the board were rejected, absent a showing of cause, a director could not be removed who fails to garner majority support (such failure alone would not constitute "cause"). We will need to consider the effects of Delaware law in considering any potential change to voting procedures, which may limit our ability to implement this proposal.

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**PROPOSALS TO VOTE ON**

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Before deciding whether or not to vote on a majority standard for the election of directors, we believe that it is important for stockholders to know what the effect will be on (1) the length of director holdover terms for directors who fail to receive a majority vote and (2) whether directors who are elected may be removed with or without cause during their terms. This is important information that may influence how a stockholder would vote on this proposal.

We recommend a vote **against** the stockholder proposal regarding majority voting.

**FOURTH STOCKHOLDER PROPOSAL:**

**SEVERANCE PAYMENTS**

The Trowel Trades S&P 500 Index Fund of the International Union of Bricklayers and Allied Craftworkers, P.O. Box 75000, Detroit, Michigan 48275, which holds approximately 35,381 shares of company stock, has submitted the following proposal for consideration at the annual meeting.

*Stockholder Resolution*

*Resolved: that the shareholders of The Charles Schwab Corporation ( the Company ) urge the Board of Directors to seek shareholder approval of future severance agreements with senior executives that provide benefits in an amount exceeding 2.99 times the sum of the executives base salary plus bonus. Future severance agreements include employment agreements containing severance provisions, retirement agreements and agreements renewing, modifying or extending existing such agreements. Benefits include lump-sum cash payments and the estimated present value of periodic retirement payments, fringe benefits, perquisites and consulting fees to be paid to the executive.*

*Stockholder s Statement of Support*

*In our [The Trowel Trades S&P 500 Index Fund s] opinion, severance agreements as described in this resolution, commonly known as golden parachutes , are excessive in light of the high levels of compensation enjoyed by senior executives at the Company and U.S. corporations in general.*

*We believe that requiring shareholder approval of such agreements may have the beneficial effect of insulating the Board of Directors from manipulation in the event a senior executive s employment must be terminated by the Company. Because it is not always practical to obtain prior shareholder approval, the Company would have the option if this proposal were implemented of seeking shareholder approval after the material*

*terms of the agreement were agreed upon.*

*For those reasons, we urge shareholders to vote for this proposal.*

**Board of Directors Recommendation Against and Statement of Opposition to the Proposal Regarding Severance Payments**

The company's severance agreements and policies are part of the company's overall compensation program, one designed to attract and retain highly qualified executives. The company operates in a highly competitive industry where executive talent is in high demand. We believe that this proposal would tie the hands of company management and the Compensation Committee in negotiating severance agreements they deem to be in the best interests of the company and its stockholders. The Compensation Committee is responsible for overseeing and administering the company's compensation programs, including severance arrangements, for senior executives. The committee is composed entirely of independent directors and has access to an independent compensation consultant to assist it with making compensation decisions. The committee reviews the terms of senior executive separation agreements (that are not part of the company's Severance Pay Plan) for fairness and comparability to similarly situated companies. The company's overall philosophy regarding executive compensation is described in the Compensation Committee Report in this proxy statement.

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**PROPOSALS TO VOTE ON**

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We believe that implementing this proposal will be costly and disruptive to our executive recruiting and retention efforts. In order to hire the best person for the job, the company will sometimes need to act decisively and within a short time frame. Under this proposal, however, in order to ratify a severance agreement with a potential executive, the company would either have to call a special meeting of stockholders or wait until the next occurring annual meeting of stockholders, neither of which is realistic in the context of a hiring situation. While the proposal's supporting statement argues that the company could seek stockholder approval after the material terms are agreed, this does not provide any assurance to a potential senior executive that the employment and severance package he or she has negotiated will be honored by the company. The executive would be in the position of having to accept employment with the company (and perhaps resigning from another company) without knowing what his or her total compensation package would be. We strongly believe this would place the company at a disadvantage relative to its competitors.

We continue to believe that the company and its stockholders are best served by having compensation decisions, including severance arrangements, made by a Compensation Committee composed entirely of independent directors, charged with the fiduciary duty to make decisions in the best interests of the company and its stockholders, and taking into account all relevant factors.

*We recommend a vote **against** the stockholder proposal regarding severance payments.*

**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
- you have properly submitted your proxy,

then Charles R. Schwab and Carrie E. Dwyer will vote your shares on those matters according to their best judgment.

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**THE BOARD OF DIRECTORS**

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**MEMBERS OF THE BOARD OF DIRECTORS**

**WILLIAM F. ALDINGER III**

DIRECTOR SINCE JULY 2005

Mr. Aldinger, age 58, was Chairman and Chief Executive Officer of HSBC North America Holdings Inc., a financial services company, from 2003 until April 2005. Mr. Aldinger also served as Chairman and Chief Executive Officer of Household International (now HSBC Finance Corporation) from 1994 until April 2005. Mr. Aldinger is a director of MasterCard International, a global payments solutions company; Illinois Tool Works, Inc., a developer and processor of engineered components, industrial systems and consumables; AT&T, Inc., a voice, video and data communications company; and KKR Financial Corp., a real estate finance company. Mr. Aldinger's term expires in 2007.

**NANCY H. BECHTLE**

DIRECTOR SINCE 1992

Ms. Bechtle, age 68, served as President and Chief Executive Officer of the San Francisco Symphony from 1987 until 2001 and has served as a member of the San Francisco Symphony Board of Governors since 1984. She was a director and Chief Financial Officer of J.R. Bechtle & Co., an international consulting firm, from 1979 to 1998. Ms. Bechtle has served as Chairman and a director of Sugar Bowl Ski Corporation since 1998. She also has served as Vice Chairman and a director of the National Park Foundation since February 2005. Ms. Bechtle is a nominee for election this year.

**C. PRESTON BUTCHER**

DIRECTOR SINCE 1988

Mr. Butcher, age 67, 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 is a nominee for election this year.

**DONALD G. FISHER**

DIRECTOR SINCE 1988



Mr. Fisher, age 77, 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. Mr. Fisher 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

Mr. Herringer, age 63, 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 Amgen, Inc., a biotechnology company; Mirapoint, Inc., an Internet message infrastructure equipment developer; and Hawaii Biotech, Inc., a biotechnology company. Mr. Herringer's term expires in 2008.

**MARJORIE MAGNER**

DIRECTOR SINCE JANUARY 2006

Ms. Magner, age 56, served as Chairman and Chief Executive Officer of the Global Consumer Group for Citigroup, Inc., a financial services company, from 2003 until October 2005. Ms. Magner joined Commercial Credit, a predecessor company to Citigroup, in 1987. She served as Chief Administrative Officer and Senior Executive Vice President, Global Consumer Group from 2000 until 2002, and Chief

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**THE BOARD OF DIRECTORS**

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Operating Officer, Global Consumer Group from 2002 until 2003. Ms. Magner is a director of Gannett Company, Inc., a publishing company, and Accenture Ltd, a management consulting and technology services company. She also serves as Chairman of the Brooklyn College Foundation Board of Trustees and is a member of the Dean's Advisory Council of the Krannert School of Management at Purdue University. Ms. Magner is a nominee for election this year.

**STEPHEN T. MCLIN**

DIRECTOR SINCE 1988

Mr. McLin, age 59, has been Chairman and Chief Executive Officer of STM Holdings LLC, which offers merger and acquisition advice, since 1998. From 1987 until 1998, he was President and Chief Executive Officer of America First Financial Corporation, a finance and investment banking firm, and parent of EurekaBank. Before that, he was an Executive Vice President of Bank of America. Mr. McLin is an advisory director of Headwaters MB, a merchant bank; Financial Technology Ventures, a private equity fund; and Webify, Inc., a software company. Mr. McLin's term expires in 2008.

**CHARLES R. SCHWAB**

DIRECTOR SINCE 1986

Mr. Schwab, age 68, has been Chairman and a director of The Charles Schwab Corporation since its incorporation in 1986. Mr. Schwab was re-appointed as Chief Executive Officer of the company in July 2004. He served as Co-Chief Executive Officer of the company from 1998 to 2003, and Chief Executive Officer of the company from 1986 to 1997. Mr. Schwab was a founder of Charles Schwab & Co., Inc. in 1971, has been its Chairman since 1978, and its Chief Executive Officer since July 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's term expires in 2008.

**PAULA A. SNEED**

DIRECTOR SINCE 2002

Ms. Sneed, age 58, has been Executive Vice President, Global Marketing Resources and Initiatives, of Kraft Foods, Inc., a global food and beverage company, since July 2005. 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 2004, and Senior Vice President, Global Marketing Resources and Initiatives from December 2004 to July 2005. 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

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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 70, has served as Chairman and Chief Executive Officer of Tusker Corporation, a real estate and business management company, since 1997. He served as Chairman and Chief Executive Officer of ELS Educational Services, Inc., a provider in the United States 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.

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**THE BOARD OF DIRECTORS**

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Since 1985, Mr. Walther has served as Chairman and has been a director of First Republic Bank. Mr. Walther's term expires in 2008.

**ROBERT N. WILSON**

DIRECTOR SINCE 2003

Mr. Wilson, age 65, has been Chairman of Caxton Health Holdings, LLC, a healthcare-focused investment firm, 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 had 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 Pharmaceuticals Corporation, a bio-pharmaceutical company. Mr. Wilson's term expires in 2008.

**DAVID B. YOFFIE**

DIRECTOR SINCE 2003

Professor Yoffie, age 51, 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.

**NUMBER OF DIRECTORS AND TERMS**

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

Our directors currently 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.

If the proposal to amend the certificate of incorporation and bylaws to provide for the annual election of directors is approved, directors will be elected annually after their current three-year terms expire, beginning with the 2007 annual meeting.

**Table of Contents****THE BOARD OF DIRECTORS****BOARD AND COMMITTEE MEETINGS**

The board held seven regular meetings and one special meeting in 2005. Each director attended at least 75% of all board and applicable committee meetings during 2005. 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 2005, all of the directors attended the annual meeting.

This table describes the board's standing committees.

**NAME OF COMMITTEE AND****MEMBERS<sup>(1)</sup>****FUNCTIONS OF THE COMMITTEE****NUMBER OF MEETINGS IN 2005****AUDIT**

- reviews the integrity of the financial reporting process

10

Stephen T. McLin, Chairman<sup>(2)</sup>

- reviews the qualifications and independence of the independent auditors and performance of the company's internal audit function and independent auditors

William F. Aldinger III<sup>(2)(3)</sup>

Nancy H. Bechtle

C. Preston Butcher

- retains sole authority to select independent auditors, approve audit fees and establish policies and procedures regarding pre-approval of fees for non-audit services

Donald G. Fisher

Marjorie Magner<sup>(4)</sup>

- reviews compliance with legal and regulatory requirements

**COMPENSATION**

- annually reviews and approves corporate goals and objectives relating to compensation of executive officers and other senior officers

8

Roger O. Walther, Chairman

Frank C. Herringer

- evaluates the performance of executive officers and other senior officers and determines their compensation levels

Paula A. Sneed

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Robert N. Wilson

- reviews and approves compensatory arrangements for executive officers and other senior officers

David B. Yoffie<sup>(5)</sup>

- approves long-term awards for executive officers and other senior officers

Table of Contents**THE BOARD OF DIRECTORS****NAME OF COMMITTEE AND****MEMBERS<sup>(1)</sup>****FUNCTIONS OF THE COMMITTEE****NUMBER OF MEETINGS IN 2005****NOMINATING AND CORPORATE GOVERNANCE**

- identifies individuals qualified to serve on the board

3

Frank C. Herringer, Chairman

William F. Aldinger III<sup>(3)</sup>

Nancy H. Bechtle

C. Preston Butcher

Donald G. Fisher

Marjorie Magner<sup>(4)</sup>

Stephen T. McLin

Paula A. Sneed

Roger O. Walther

Robert N. Wilson

David B. Yoffie<sup>(5)</sup>

- 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

- leads the board in its annual review of the board's performance, develops corporate governance principles, policies and procedures and recommends their adoption by the board

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

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

(3) Mr. Aldinger was appointed to the Audit and Nominating and Corporate Governance Committees, effective July 28, 2005.

(4) Ms. Magner was appointed to the Audit and Nominating and Corporate Governance Committees, effective January 26, 2006.

(5) Mr. Yoffie was appointed to the Compensation and Nominating and Corporate Governance Committees, effective March 14, 2006.





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**THE BOARD OF DIRECTORS**

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**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](http://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 has been an officer or employee of the company or any of its subsidiaries. There were no Compensation Committee interlocks as defined under Securities and Exchange Commission rules during 2005.

**DIRECTOR COMPENSATION**

*All Directors*

All directors are reimbursed first-class air travel, hotel, meals and related expenses for attending board and committee meetings.

*Employee Directors*

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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 2005:

#### **Non-Employee Director Retainers and Fees**

<b>Annual retainer</b>	\$ 50,000
<b>Attendance fee for each board meeting</b>	\$ 2,800
<b>Attendance fee for each Audit Committee and Compensation Committee meeting held on the same day as a board meeting</b>	\$ 1,000
<b>Attendance fee for each other board committee meeting held on the same day as a board meeting</b>	\$ 500
<b>Attendance fee for each Audit Committee and Compensation Committee meeting held on a day other than a board meeting</b>	\$ 2,500
<b>Attendance fee for each other board committee meeting held on a day other than a board meeting</b>	\$ 2,000
<b>Additional annual retainer for service as Audit Committee chairman</b>	\$ 20,000
<b>Additional annual retainer for service as a board committee chairman other than the Audit Committee</b>	\$ 15,000

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 2005, non-employee directors were entitled to grants as follows:

#### **Non-Employee Director Equity Grants**

<b>Annual grant of options</b>	5,000 options
<b>Annual grant of restricted stock</b>	5,195 shares
<b>Initial grant of options for new directors</b>	10,000 options

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**THE BOARD OF DIRECTORS**

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Non-employee directors receive the initial grant of options on the date of the first board meeting after joining the board. They receive the annual grants of options and restricted stock on the second business day after each annual meeting of stockholders. 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, with 25% vesting on each of the first and second anniversary of the grant date and the remaining 50% on the third anniversary of the grant date. The options 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 \$60,000 by the average of the high and low market prices of common stock on the date of the grant.
- 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.
- 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.

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 closing price 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 rabbi 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 in accordance with the Nasdaq Stock Market corporate governance rules. We have determined that the following directors are independent: William F. Aldinger III, Nancy H. Bechtle, C. Preston Butcher, Donald G. Fisher, Frank C. Herringer, Marjorie Magner, Stephen T. McLin, Paula A. Sneed, Roger O. Walther, Robert N. Wilson, and David B. Yoffie.

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**THE BOARD OF DIRECTORS**

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**DIRECTOR NOMINATIONS**

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

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](http://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. Ms. Bechtle and Mr. Butcher have been previously elected by stockholders as directors. Ms. Wagner was appointed to the board in January 2006, and this is the first year that she is a candidate for stockholder election to the board. The Chairman suggested Ms. Wagner's name as a candidate to the Nominating and Corporate Governance Committee, and the committee, comprised of independent directors, recommended Ms. Wagner'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, 2006. 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](http://www.abotschwab.com/governance).

*Director Qualifications*

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The qualifications for directors are described in our Corporate Governance Guidelines, which are 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.

### *Identifying and Evaluating Nominees for Director*

The Nominating and Corporate Governance Committee reviews the appropriate skills and characteristics

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**THE BOARD OF DIRECTORS**

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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. 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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**AUDITING INFORMATION**

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**AUDIT COMMITTEE REPORT**

The Audit Committee is composed entirely of independent directors as determined by the Board of Directors in accordance with the listing standards of the Nasdaq Stock Market. None of the directors on this committee is or has been an employee of The Charles Schwab Corporation or any of its subsidiaries. None of the committee members simultaneously serves on the audit committees of more than three public companies, including ours. All of the members of our committee are able to read and understand fundamental financial statements, including the company's balance sheet, income statement, and cash flow statement. The board has determined that William F. Aldinger III and Stephen T. McLin are Audit Committee financial experts.

The Board of Directors has adopted a written Audit Committee charter. The charter is available on our website at [www.abotschwab.com/governance](http://www.abotschwab.com/governance). A copy of the charter is attached to this proxy statement as Exhibit B.

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

- reviewed and discussed the audited financial statements with management,
- discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), and
- received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and discussed with the 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, 2005, for filing with the SEC.

**AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

Stephen T. McLin, Chairman

William F. Aldinger III

Nancy H. Bechtle

C. Preston Butcher

Donald G. Fisher

Marjorie Magner

**Table of Contents****AUDITING INFORMATION****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 registered public accounting firm for the 2006 fiscal year. Deloitte has served in this capacity since the company's inception. We expect representatives of Deloitte to attend the annual meeting of stockholders, where they will respond to appropriate questions from stockholders and have the opportunity to make a statement.

*Audit Fees*

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

**Fiscal year ended December 31:**

<b>2004</b>	\$ 6.5 million
<b>2005</b>	\$ 5.0 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:**

<b>2004</b>	\$ 1.6 million
<b>2005</b>	\$ 1.5 million

*Tax Fees*

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

### Fiscal year ended December 31:

2004	\$	0.4 million
2005	\$	0.1 million

### *All Other Fees*

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

### Fiscal year ended December 31:

2004	None
2005	None

In addition to the fees above, audit fees in the amount of \$1.6 million in 2004 and \$1.8 million in 2005 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,
- broker-dealer services,
- actuarial services,

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**AUDITING INFORMATION**

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- 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. The three categories are:

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

Services not 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 years 2004 and 2005, 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**

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**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 the listing standards of the Nasdaq Stock Market.

Our committee is responsible for overseeing and administering the company's compensation programs for the Chairman and Chief Executive Officer, executive officers and other senior 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](http://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 overall compensation paid to executive officers in similar positions of peer group companies. When reviewing compensation, we look at each element of the executive officers' compensation package, as well as the overall package of compensation, including the value of perquisites provided by the company. The absence of any traditional pension or supplemental executive retirement pension benefit for executive officers (other than officers of U.S. Trust, a subsidiary of the company) makes the long-term incentive and stock programs an even more critical, performance-based component of executive officers' longer-term capital accumulation opportunity.

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 companies in 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 each company competes with our company for executive talent.

Further, to 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.



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**EXECUTIVE COMPENSATION**

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*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 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 in 2005 are above the median base salaries paid to executives of the peer group of companies. Our objective is to have the base salaries of our executive officers approximate the median base salaries of peer companies over time.

*Cash Bonuses*

The bonus of the Chairman and Chief Executive Officer and each other executive officer is calculated and paid in accordance with the company's Corporate Executive Bonus Plan (CEBP). Under the CEBP, we set a target bonus for each executive officer 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 the executive officer's individual experience and performance, internal relationships of the executive leaders, and competitive market data and recommendations provided by our independent compensation consultant. In 2005, awards could range from 0% to 200% of the target bonus based on performance matrices that we adopted when we established target bonuses for executive officers. In 2005, we used revenue growth and profit margins as the key performance measures to determine the level of performance and bonus payouts under the matrices. Some executive officers were paid bonuses based solely on overall corporate performance, while other executives who lead either an enterprise or a business unit were paid bonuses based on a combination of overall corporate performance and the performance of the enterprise or business unit that they oversee as follows:

- The bonus criteria for Charles R. Schwab, Chairman and Chief Executive Officer and Christopher V. Dodds, Executive Vice President and Chief Financial Officer were based solely on overall corporate performance. For 2005, overall corporate performance exceeded the company's targets, which resulted in the payment of bonuses equal to 125% of their target bonus awards.
- Walter W. Bettinger II, Executive Vice President & President, Schwab Investor Services, earned a bonus, 40% of which was based on overall corporate performance and 60% of which was based on the performance of the Schwab Investor Services business segment. Such performance exceeded the company's target goals, which resulted in the payment of a bonus equal to 139% of his target bonus award.
- Deborah D. McWhinney, Executive Vice President & President, Schwab Institutional, earned a bonus, 40% of which was based on overall corporate performance and 60% of which was based on the performance of the Schwab Institutional business segment. Such performance exceeded the company's target goals, which resulted in the payment of a bonus equal to 136% of her target bonus award.
- Peter K. Scaturro, Executive Vice President & Chief Executive Officer, U.S. Trust Corporation, earned a bonus, 30% of which was based on overall corporate performance and 70% of which was based on the performance of U.S. Trust. While overall corporate performance exceeded the company's target goals, performance of U.S. Trust was below the company's target goals, which resulted in the payment of a bonus equal to 74% of Mr. Scaturro's target bonus award.

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All 2005 bonuses for named executive officers are set forth in the Summary Compensation Table, which follows this report.

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**EXECUTIVE COMPENSATION**

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*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 2005, we established a 3 1/2-year performance period beginning July 1, 2005. Cash incentives for this performance period will be based on the company's cumulative earnings per share over the performance period.

If cumulative earnings per share exceed \$2.21 (the threshold), 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 \$2.22) and 400% of the officer's target cash award (where cumulative earnings per share reach \$3.42). If cumulative earnings per share do not exceed the threshold 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 opportunity granted to each of the company's named executive officers in 2005 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.

In 2005, stock-based awards to executive officers consisted of premium priced stock options. The premium was intended to ensure that these officers do not realize a gain from the options until after stockholders realize a meaningful gain in stock price, thereby introducing greater performance risk and rewarding the officers for achieving and sustaining significant growth in the company's valuation. The exercise prices of the options were set at premiums above the fair market value of the company's common stock on the date of grant that are equivalent to compounded annual appreciation of 12%. For the Chairman and Chief Executive Officer, shares under the option had the following exercise prices expressed as a percentage of the closing price of the company's common stock on the date of grant: one-third at 112%, one-third at 125%, and one-third at 140%. For each other executive officer, shares under the option had the following exercise prices expressed as a percentage of the closing price of the company's common stock on the date of grant: one-half at 112% and one-half at 125%. The size of awards for each executive officer was determined based on title, performance ratings, potential for leadership and competitive market data concerning levels of long-term compensation for executive officers of peer group companies. The premium priced stock options granted to each of the company's named executive officers in 2005 are set forth in the table entitled "Options Granted in Last Fiscal Year," which follows this report.

The Board of Directors has adopted stock ownership guidelines for executives. Under these guidelines, the Chairman and Chief Executive Officer should have an investment position in company stock equal to at least \$5 million. All other executive officers should have an investment

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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) the date the officer becomes an executive officer. Each executive officer also 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.

As of the close of business on March 20, 2006, directors and executive officers owned an aggregate of 245,384,484 shares (including restricted shares) and had the right to acquire an additional 13,662,138 shares upon the exercise of stock options or under the Directors' Deferred Compensation Plans.

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**EXECUTIVE COMPENSATION**

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*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 C, as follows:

- Annual salary of \$900,000 subject to our annual review.
- Annual bonus determined under the CEBP, as described above.

For 2005, Mr. Schwab earned a bonus of \$3,937,500 based on his target bonus award and the formula-based matrix.

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
- 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 separation agreements with William L. Atwell, who served as Executive Vice President Individual Investor Enterprise and Alan J. Weber, who served as Executive Vice President and Chairman and Chief Executive Officer, U.S. Trust Corporation. Both former executive officers received severance benefits pursuant to their separation agreements, which are described in the Summary Compensation Table following this report and are further described in Exhibits D and E, respectively, 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 they are performance-based and approved by the stockholders. We believe that it is generally in the best

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interests of stockholders to structure compensation plans so that compensation is performance-based and therefore deductible under section 162(m).

Accordingly, the Corporate Executive Bonus Plan, the Long-Term Incentive Plan and the 2004 Stock Incentive Plan are designed to provide performance-based compensation and have been approved by stockholders. 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

David B. Yoffie

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, 2005. It also provides information for William L. Atwell, who served as Executive Vice President and President Individual Investor Enterprise until November 2005, and Alan J. Weber, who served as Executive Vice President and Chief Executive Officer of U.S. Trust until May 2005. 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	2005	\$ 900,000	\$ 3,937,500	\$ 396,860	0	2,400,000	\$ 10,750	
	2004	\$ 900,000	0 (6)	\$ 2,013,749	0	300,000	\$ 10,500	
	2003	\$ 900,000	0 (6)	\$ 319,531	0	0	0	
Walter W. Bettinger II EXECUTIVE VICE PRESIDENT AND PRESIDENT SCHWAB INVESTOR SERVICES	2005	\$ 520,833	\$ 1,061,059		0	400,000	\$ 10,750	
	2004	\$ 465,600	\$ 330,185		\$ 1,000,004	228,103	\$ 10,500	
	2003	\$ 416,667	\$ 186,995		\$ 280,002	0	0	
Christopher V. Dodds EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER	2005	\$ 550,000	\$ 962,500		0	300,000	\$ 10,750	
	2004	\$ 550,000	\$ 640,769		0	291,971	\$ 10,500	
	2003	\$ 543,333	\$ 329,973		\$ 2,662,496	0	0	
Deborah D. McWhinney EXECUTIVE VICE PRESIDENT AND PRESIDENT SCHWAB INSTITUTIONAL	2005	\$ 500,000	\$ 848,750		0	400,000	\$ 10,750	
	2004	\$ 443,733	\$ 404,132		\$ 1,000,004	228,103	\$ 10,500	
	2003	\$ 355,000	\$ 163,213		\$ 367,928	0	0	
Peter K. Scaturro (7) EXECUTIVE VICE PRESIDENT AND	2005	\$ 322,116	\$ 2,000,000 (8)		\$ 2,000,002	800,000	\$ 8,355	

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CHIEF EXECUTIVE OFFICER, U.S.  
TRUST

<b>William L. Atwell</b> <sup>(9)</sup>	2005	\$ 655,837	\$ 1,280,895	\$ 539,741	0	400,000	\$ 985,750
	2004	\$ 596,667	\$ 564,553	\$ 807,099	0	273,723	\$ 10,500
FORMER EXECUTIVE VICE PRESIDENT AND	2003	\$ 560,833	\$ 412,929	\$ 520,192	\$ 2,908,786	0	0

PRESIDENT INDIVIDUAL  
INVESTOR

ENTERPRISE

<b>Alan J. Weber</b> <sup>(10)</sup>	2005	\$ 256,415	0	0	0	\$ 1,408,681
	2004	\$ 625,001	\$ 788,556	0	273,723	\$ 10,500

FORMER EXECUTIVE VICE  
PRESIDENT

AND CHIEF EXECUTIVE OFFICER,  
U.S. TRUST

	2003	\$ 625,000	\$ 468,750	\$ 2,272,521	0	0
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(1) A column under Long-Term Compensation Awards for LTIP payouts is not included because no payments could be made under the company's Long-Term Incentive Plan until 2007.

(2) The company incurs costs for security systems and equipment for the protection of its Chairman and Chief Executive Officer. These systems were established on the recommendation of an independent, third-party consulting firm retained in 2002 as part of the company's business protection plans and are not maintained for the personal benefit of the Chairman and Chief Executive Officer. Pursuant to the consultant's security study, the company provided Mr. Schwab with the installation and maintenance of a security system at his personal residence, as well as security at his personal residence prior to the installation of the security system. For



**Table of Contents****EXECUTIVE COMPENSATION**

Mr. Schwab, this column includes the following security-related respective amounts during 2005, 2004 and 2003: \$370,022, \$2,000,315 and \$309,966. These figures do not include those portions for installation of the security system in his personal residence that Mr. Schwab paid for personally.

For Mr. Atwell, this column includes:

tax reimbursement in the following respective amounts during 2005, 2004 and 2003: \$361,184, \$190,734 and \$128,491,

a perquisite allowance in 2005 of \$118,421, to cover expenses for travel between residences he maintained on the East Coast and certain business locations,

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

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

- (3) This column shows the market value of restricted stock awards on the date of grant for each named executive officer who received an award. The following chart shows the number of restricted shares awarded by year and describes the vesting schedule:

	<b>Year of Grant</b>	<b>Number of Restricted Shares</b>
<b>Mr. Bettinger</b>	2004	117,028 <sup>(a)</sup>
	2003	36,964 <sup>(b)</sup>
<b>Mr. Dodds</b>	2003	82,509 <sup>(b)</sup>
	2003	182,000 <sup>(c)</sup>
<b>Ms. McWhinney</b>	2004	117,028 <sup>(a)</sup>
	2003	26,403 <sup>(b)</sup>
	2003	15,000 <sup>(b)</sup>
<b>Mr. Scaturro</b>	2005	172,861 <sup>(d)</sup>
<b>Mr. Atwell</b>	2003	82,509 <sup>(b)</sup>
	2003	204,000 <sup>(c)</sup>
<b>Mr. Weber</b>	2003	99,010 <sup>(b)</sup>
	2003	136,000 <sup>(c)</sup>

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- (a) Twenty-five percent (25%) of the shares vest on each of the second and third anniversary of the grant date, and 50% of the shares vest on the fourth anniversary of the grant date.
- (b) Twenty-five percent (25%) of the shares vest on each of the first, second, third and fourth anniversary of the grant date.
- (c) Twenty-five percent (25%) of the shares vest on each of the third and fourth anniversary of the grant date, and 50% of the shares vest on the fifth anniversary of the grant date.
- (d) All shares vest on the earlier of (1) March 15, 2008, provided that U.S. Trust achieves certain performance targets related to revenue growth, pre-tax profit margin and net new assets; or (2) May 19, 2010.

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The vesting of 92,255 and 49,505 shares in the chart above granted to Mr. Atwell and Mr. Weber, respectively, were accelerated pursuant to their individual separation agreements and 153,000 and 136,000, respectively, of their restricted shares were canceled.

The following chart shows the cumulative unvested restricted stock held by each named executive officer as of December 30, 2005 based on the closing price of common stock on that date (\$14.67).

	<b>Number</b>	
	<b>of</b>	<b>Year-End</b>
	<b>Shares</b>	<b>Value</b>
<b>Mr. Schwab</b>	0	0
<b>Mr. Bettinger</b>	135,510	\$ 1,987,932
<b>Mr. Dodds</b>	223,255	\$ 3,275,151
<b>Ms. McWhinney</b>	137,730	\$ 2,020,499
<b>Mr. Scaturro</b>	172,861	\$ 2,535,871
<b>Mr. Atwell</b>	0	0
<b>Mr. Weber</b>	0	0

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 2005 and 2004, the company's matching contributions were \$10,750 and \$10,500, respectively. Mr. Scaturro did not receive a matching contribution in 2005.

In the case of Mr. Scaturro, \$8,355 was credited under the U.S. Trust Corporation Employees' Retirement Plan, which is a tax-qualified cash balance plan. Under the plan, a bookkeeping account is established for Mr. Scaturro, which is credited on a quarterly basis with pay credits based on 5% of eligible compensation and interest credits based on an average yield on ten-year Treasury securities. If Mr. Scaturro continues in his current position and retires at age 65, his estimated annual benefit under the plan at retirement, payable as a single life annuity, is \$42,600. This projected amount is based on current provisions of the plan, annual increases of 3.5% to the IRS limitation on tax-qualified plan compensation, and rates currently used to determine interest credits and to convert account balances to annuities.

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In the case of Mr. Atwell, a lump sum severance payment of \$975,000 was paid in accordance with his separation agreement summarized in Exhibit D.

In the case of Mr. Weber, a lump sum severance payment of \$1,408,681 was paid in accordance with his separation agreement summarized in Exhibit E.

- (5) Mr. Schwab has had an employment contract with the company since 1987. His current employment contract is described in Exhibit C to this proxy statement.
- (6) Mr. Schwab declined recommended bonuses for 2004 (which was directed to bonuses for other employees and corporate charitable purposes) and for 2003 (which was directed to bonuses for other employees).
- (7) Mr. Scaturro joined the company on May 9, 2005. Under Mr. Scaturro's offer letter dated May 4, 2005, during the first 24 months of his employment, if Mr. Scaturro is terminated without cause (as defined in the offer letter)

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**EXECUTIVE COMPENSATION**

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or resigns for good reason (as defined in the offer letter), Mr. Scaturro is entitled to one year's salary and bonus, and vesting of his initial stock option and restricted stock awards based on years of service already completed plus one additional year of service. In the event of the sale or merger of U.S. Trust, if Mr. Scaturro is not employed by the surviving entity, Mr. Scaturro is entitled to two years' salary and bonus, and vesting of his initial stock option and restricted stock awards based on years of service already completed plus two additional years of service. If Mr. Scaturro accepts an offer with the surviving entity, then Mr. Scaturro will be entitled to one year's salary and bonus and vesting of his initial stock options and restricted stock awards based on years of service already completed plus one additional year of service.

- (8) This amount represents a bonus awarded for 2005 under the Corporate Executive Bonus Plan in the amount of \$953,461 and an estimated guaranteed payment of \$1,046,539. Under the terms of Mr. Scaturro's offer letter, if he has not received at least \$2,500,000 in total compensation (which includes salary, bonus, or any other special awards or payments) attributable to his first 12 months of active employment, which commenced in May 2005, then the company will pay Mr. Scaturro the difference between what he received and \$2,500,000. The difference will be determined at the end of June 2006 and will be paid to Mr. Scaturro approximately six weeks thereafter. The guarantee will not be paid if Mr. Scaturro resigns or is terminated for cause (as defined in the offer letter). The guarantee is paid if Mr. Scaturro is terminated without cause.
- (9) Mr. Atwell resigned and entered into a separation agreement as of November 29, 2005, described in Exhibit D.
- (10) Mr. Weber resigned and entered into a separation agreement as of May 23, 2005, described in Exhibit E.

Table of Contents**EXECUTIVE COMPENSATION****OPTIONS GRANTED IN LAST FISCAL YEAR**

This table shows stock option grants to the named executive officers during 2005.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE PER SHARE	EXPIRATION DATE	VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM <sup>(3)</sup>	
5%					10%	
Charles R. Schwab	800,000 <sup>(1)</sup>	7.25%	\$ 19.1240	9/7/12	\$ 4,424	\$ 5,895,047
	800,000 <sup>(1)</sup>	7.25%	\$ 17.0750	9/7/12	\$ 1,643,624	\$ 7,534,247
	800,000 <sup>(1)</sup>	7.25%	\$ 15.2992	9/7/12	\$ 3,064,264	\$ 8,954,887
Walter W. Bettinger II	200,000 <sup>(1)</sup>	1.81%	\$ 17.0750	9/7/12	\$ 410,906	\$ 1,883,562
	200,000 <sup>(1)</sup>	1.81%	\$ 15.2992	9/7/12	\$ 766,066	\$ 2,238,722
Christopher V. Dodds	150,000 <sup>(1)</sup>	1.36%	\$ 17.0750	9/7/12	\$ 308,180	\$ 1,412,671
	150,000 <sup>(1)</sup>	1.36%	\$ 15.2992	9/7/12	\$ 574,550	\$ 1,679,041
Deborah D. McWhinney	200,000 <sup>(1)</sup>	1.81%	\$ 17.0750	9/7/12	\$ 410,906	\$ 1,883,562
	200,000 <sup>(1)</sup>	1.81%	\$ 15.2992	9/7/12	\$ 766,066	\$ 2,238,722
Peter K. Scaturro	500,000 <sup>(2)</sup>	4.53%	\$ 11.5800	5/19/12	\$ 2,350,076	\$ 5,483,328
	150,000 <sup>(1)</sup>	1.36%	\$ 17.0750	9/7/12	\$ 308,180	\$ 1,412,671
	150,000 <sup>(1)</sup>	1.36%	\$ 15.2992	9/7/12	\$ 574,550	\$ 1,679,041
William L. Atwell	200,000 <sup>(1)</sup>	1.81%	\$ 17.0750	3/31/06	0	0
	200,000 <sup>(1)</sup>	1.81%	\$ 15.2992	3/31/06	0	0
Alan J. Weber	0					

(1) These premium priced options were granted on September 7, 2005 under the company's 2004 Stock Incentive Plan and were fully exercisable as of the grant date.

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- (2) These options were granted on May 19, 2005 under the company's 2004 Stock Incentive Plan and vest 50% on each of the third and fourth anniversary of the grant date.
  
- (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.

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**EXECUTIVE COMPENSATION**

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR**

**AND FISCAL YEAR-END OPTION VALUES**

This table shows stock option exercises and the value of unexercised stock options held by the named executive officers as of December 31, 2005.

	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED <sup>(1)</sup>	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR-END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR-END <sup>(2)</sup>
			EXERCISABLE	UNEXERCISABLE EXERCISABLE	