SCHWAB CHARLES CORP
Form 10-Q
May 10, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002 Commission file number 1-9700

THE CHARLES SCHWAB CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	94-3025021
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

120 Kearny Street, San Francisco, CA 94108
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (415) 627-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

1,371,319,688 shares of $.01 par value Common Stock
Outstanding on April 30, 2002

THE CHARLES SCHWAB CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2002

Index

Part I - Financial Information
Item 1. Condensed Consolidated Financial Statements

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statement of Income
(In millions, except per share amounts)
(Unaudited)

Revenues	
Asset management and administration fees	
Commissions	
Interest revenue, net of interest expense (1)	
Principal transactions	
Other	
Total	
Expenses Excluding Interest	
Compensation and benefits	
Other compensation - merger retention programs	

```
   Occupancy and equipment
   Communications
   Depreciation and amortization
   Advertising and market development
   Professional services
   Commissions, clearance and floor brokerage
   Goodwill amortization
   Restructuring and other charges
   Other
-----------------------------------------------------------------------------------------------------
      Total
-----------------------------------------------------------------------------------------------------
Income before taxes on income and extraordinary gain
Tax expense on income
-----------------------------------------------------------------------------------------------------
Income before extraordinary gain
Extraordinary gain on sale of corporate trust business, net of tax of $10
-----------------------------------------------------------------------------------------------------

Net Income
=====================================================================================================
Weighted-Average Common Shares Outstanding - Diluted
=====================================================================================================

Earnings Per Share - Basic
   Income before extraordinary gain
   Extraordinary gain, net of tax
   Net income

Earnings Per Share - Diluted
   Income before extraordinary gain
   Extraordinary gain, net of tax
   Net income
=====================================================================================================
Dividends Declared Per Common Share
=====================================================================================================
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(1) Interest revenue is presented net of interest expense. Interest expense for the three mont
March 31, 2002 and 2001 was $94 million and $332 million, respectively.

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Balance Sheet
(In millions, except share and per share amounts)
(Unaudited)

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Assets
  Cash and cash equivalents
  Cash and investments segregated and on deposit for federal or other
      regulatory purposes(1) (including resale agreements of $16,052 in 2002
      and $14,811 in 2001)
  Securities owned - at market value (including securities pledged of $163
      in 2002 and $185 in 2001)
  Receivables from brokers, dealers and clearing organizations
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Receivables from brokerage clients - net
Loans to banking clients - net
Equipment, office facilities and property - net
Goodwill - net
Other assets
Total
Liabilities and Stockholders' Equity
Deposits from banking clients
Drafts payable
Payables to brokers, dealers and clearing organizations
Payables to brokerage clients
Accrued expenses and other liabilities
Short-term borrowings
Long-term debt
Total liabilities
Stockholders' equity:
Preferred stock - 9,940,000 shares authorized; $.01 par value per share; none issued
Common stock - 3 billion shares authorized; $.01 par value per share; 1,391,678,704 and 1,391,673,494 shares issued in 2002 and 2001, respectively
Additional paid-in capital
Retained earnings
Treasury stock - 20,937,192 and 23,110,972 shares in 2002 and 2001, respectively, at cost
Unamortized stock-based compensation
Accumulated other comprehensive loss
Total stockholders' equity
Total

(1) Amounts included represent actual balances on deposit, whereas cash and investments required
other regulatory purposes were $17,414 million and $18,261 million at March 31, 2002 and Dece
On April 2, 2002, the Company withdrew $661 million of excess segregated cash. As of January
deposited $710 million to meet its segregated cash requirement.

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statement of Cash Flows
(In millions)
(Unaudited)

Cash Flows from Operating Activities
Net income
Adjustments to reconcile net income to net cash used for operating activities:
Depreciation and amortization
Goodwill amortization
Compensation payable in common stock
Deferred income taxes
Tax benefits from stock options exercised and other stock-based compensation
Non-cash restructuring charges
Extraordinary gain on sale of corporate trust business, net of tax
Other
Net change in:
Cash and investments segregated and on deposit for federal or other regulatory purposes
Securities owned (excluding securities available for sale)
Receivables from brokers, dealers and clearing organizations
Receivables from brokerage clients
Other assets
Drafts payable
Payables to brokers, dealers and clearing organizations
Payables to brokerage clients
Accrued expenses and other liabilities

Net cash used for operating activities

Cash Flows from Investing Activities
Purchases of securities available for sale
Proceeds from sales of securities available for sale
Proceeds from maturities, calls and mandatory redemptions of securities available for sale
Net change in loans to banking clients
Purchase of equipment, office facilities and property - net
Cash payments for business combinations and investments, net of cash received
Proceeds from sale of Canadian operations

Net cash used for investing activities

Cash Flows from Financing Activities
Net decrease in deposits from banking clients
Net change in short-term borrowings
Repayment of long-term debt
Dividends paid
Proceeds from stock options exercised and other

Net cash used for financing activities

Effect of exchange rate changes on cash and cash equivalents

Decrease in Cash and Cash Equivalents
Cash and Cash Equivalents at Beginning of Period

Cash and Cash Equivalents at End of Period

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements
(Tabular Amounts in Millions, Except Per Share Amounts and Ratios)
(Unaudited)

1. Basis of Presentation

The Charles Schwab Corporation (CSC) is a financial holding company engaged, through its subsidiaries, in securities brokerage and related financial services. Charles Schwab & Co., Inc. (Schwab) is a securities broker-dealer with 396 domestic branch offices in 48 states, as well as branches in the Commonwealth of Puerto Rico and the U.S. Virgin Islands. U.S. Trust Corporation (USTC, and with its subsidiaries collectively referred to as U.S. Trust) is a wealth management firm that through its subsidiaries also provides fiduciary services and private banking services with 34 offices in 12 states. Other subsidiaries include Charles Schwab Europe (CSE), a retail securities brokerage firm located in the United Kingdom, Charles Schwab Investment Management, Inc., the investment advisor for Schwab's proprietary mutual funds, Schwab Capital Markets L.P. (SCM), a market maker in Nasdaq and other securities providing trade execution services primarily to broker-dealers and institutional clients, and CyberTrader, Inc. (CyberTrader), an electronic trading technology and brokerage firm providing services to highly active, online investors.

The accompanying unaudited condensed consolidated financial statements include CSC and its majority-owned subsidiaries (collectively referred to as the Company). These financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, in the opinion of management, reflect all adjustments necessary to present fairly the financial position, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the U.S. All adjustments were of a normal recurring nature, except as discussed in Note "2 - Accounting Change." Certain items in prior periods' financial statements have been reclassified to conform to the 2002 presentation. All material intercompany balances and transactions have been eliminated. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2001 Annual Report to Stockholders on Form 10-K. The Company's results for any interim period are not necessarily indicative of results for a full year or any other interim period.

2. Accounting Change

Statement of Financial Standards (SFAS) No. 142 - Goodwill and Other Intangible Assets, was issued in June 2001. Under the provisions of SFAS No. 142, companies are no longer permitted to amortize goodwill and certain intangible assets with an indefinite useful life. Instead, these assets must be reviewed at least annually for possible impairment under new criteria. The Company adopted SFAS No. 142, and accordingly discontinued the amortization of goodwill as of January 1, 2002. During the second quarter of 2002, the Company plans to complete the initial transitional goodwill impairment test as required. Except for the cessation of goodwill amortization, the adoption of SFAS No. 142 is not expected to have a material impact on the Company's financial position, results of operations, earnings per share (EPS), or cash flows.

The decrease in goodwill during the first quarter of 2002 was primarily due to the sale of the Company's Canadian operations. The carrying amount of goodwill, net of accumulated amortization, attributable to each of the Company's reportable segments is as follows:

	March 31, 2002	December 31, 2001
Individual Investor	$ 436	$ 440
Institutional Investor	5	5
Capital Markets	25	25
U.S. Trust	158	158
Total	$ 624	$ 628

The table below compares net income and EPS for the three months ended March 31, 2002, which excludes goodwill amortization, with net income and EPS for the three months ended March 31, 2001, which has been adjusted to exclude goodwill amortization.

	Three Months Ended March 31, 2002 (Reported)	2001 (Adjusted)
Net income:		
Reported income before extraordinary gain	$ 82	$ 97
Add: Goodwill amortization, net of tax		16
Reported/adjusted income before extraordinary gain	82	113
Extraordinary gain, net of tax	12	
Reported/adjusted net income	$ 94	$ 113
Basic and diluted EPS:		
Reported EPS before extraordinary gain	$ .06	$ .07
Add: Goodwill amortization		.01
Reported/adjusted EPS before extraordinary gain	.06	.08
Extraordinary gain, net of tax	.01	
Reported/adjusted EPS	$ .07	$ .08

3. New Accounting Standard

Long-Lived Assets: SFAS No.144 - Accounting for the Impairment or Disposal of Long-Lived Assets, was issued in August 2001 and addresses the financial accounting and reporting for the impairment or disposal of long-lived assets (e.g., equipment and office facilities). This statement supersedes SFAS No. 121 - Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and certain accounting and reporting provisions of Accounting Principles Board Opinion No. 30 - Reporting the Results of Operations. The Company adopted this statement on January 1, 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position, results of operations, EPS, or cash flows.

4. Restructuring

In the second quarter of 2001, the Company initiated a restructuring plan to reduce operating expenses. The restructuring plan included a workforce reduction, a reduction in operating facilities, and the removal of certain systems hardware, software and equipment from service. Included in these initiatives are costs associated with the withdrawal from certain international operations. In the first quarter of 2002, the Company recorded pre-tax restructuring charges of $27 million.

A summary of the activity in the restructuring liability for the first quarter of 2002 is as follows:

	Workforce Reduction	Facilities Reduction	Systems Removal	Total
Balance at December 31, 2001	$ 74	$ 97	$ 4	$ 175
Restructuring charges	15	11	1	27
Utilization:				
Cash payments	(45)	(14)	(2)	(61)
Non-cash charges (1)	(2)			(2)

Balance at March 31, 2002	$ 42 (2)	$ 94 (3)	$ 3 (4)	$ 139

(1) Includes charges for officers' stock-based compensation.
(2) The Company expects to substantially utilize the remaining restructuring liability through cash payments for severance pay and benefits over the respective severance periods through 2003.
(3) The Company expects to utilize the remaining restructuring liability through cash payments for the net lease expense over the respective lease terms through 2010.
(4) The Company expects to substantially utilize the remaining restructuring liability in the second quarter of 2002.

5. Sale of Corporate Trust Business

In 2001, U.S. Trust sold its Corporate Trust business to The Bank of New York Company, Inc. During the first quarter of 2002, the Company recorded an extraordinary gain of $22 million, or $12 million after tax, which represented the remaining proceeds from this sale that were realized upon satisfaction of certain client retention requirements.

6. Allowance for Credit Losses on Banking Loans and Nonperforming Assets

Loans to banking clients of $4.2 billion at March 31, 2002 and $4.0 billion at December 31, 2001 are presented net of the related allowance for credit losses. The allowance for credit losses on banking loans was $22 million at March 31, 2002 and $21 million at December 31, 2001. Recoveries and charge-offs were not material for each of the three-month periods ended March 31, 2002 and 2001.

Nonperforming assets consist of non-accrual loans of $4 million at March 31, 2002 and $5 million at December 31, 2001.

7. Comprehensive Income

Comprehensive income includes net income and changes in equity except those resulting from investments by, or distributions to, stockholders. Comprehensive income is as follows:

	Three Months Ended March 31, 2002	2001
Net income	$ 94	$ 97
Other comprehensive income (loss):		
Cumulative effect of accounting change for adoption of SFAS No. 133		(12)
Net gain (loss) on cash flow hedging instruments	6	(11)
Foreign currency translation adjustment		(10)
Change in net unrealized gain (loss) on securities available for sale	(7)	8
Total comprehensive income, net of tax	$ 93	$ 72

8. Earnings Per Share

Basic EPS excludes dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential reduction in EPS that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. EPS under the basic and diluted computations are as follows:

	Three Months Ended March 31, 2002	2001
Net income	$ 94	$ 97
Weighted-average common shares outstanding - basic	1,366	1,379
Common stock equivalent shares related to stock incentive plans	23	31
Weighted-average common shares outstanding - diluted	1,389	1,410
Basic EPS:		
Income before extraordinary gain	$ .06	$ .07
Extraordinary gain, net of tax	$ .01	
Net income	$ .07	$ .07
Diluted EPS:		
Income before extraordinary gain	$ .06	$ .07
Extraordinary gain, net of tax	$ .01	
Net income	$ .07	$ .07

The computation of diluted EPS for the three months ended March 31, 2002 and 2001, respectively, excludes outstanding stock options to purchase 86 million and 49 million shares, respectively, because the exercise prices for those options were greater than the average market price of the common shares, and therefore the effect would be antidilutive.

9. Regulatory Requirements

CSC is a financial holding company, which is a type of bank holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) under the Bank Holding Company Act of 1956, as amended (the Act).

Under the Act, the Federal Reserve Board has established consolidated capital requirements for bank holding companies. CSC is subject to those guidelines. The regulatory capital and ratios of the Company, U.S. Trust, and United States Trust Company of New York (U.S. Trust NY) are as follows:

	2002		2001	
March 31,	Amount	Ratio(1)	Amount	Ratio(1)
Tier 1 Capital:				
Company	$ 3,717	22.2%	$ 3,787	19.4%
U.S. Trust	$ 583	17.2%	$ 525	19.0%
U.S. Trust NY	$ 369	13.7%	$ 331	14.8%
Total Capital:				
Company	$ 3,744	22.3%	$ 3,816	19.6%
U.S. Trust	$ 605	17.8%	$ 545	19.7%
U.S. Trust NY	$ 388	14.4%	$ 348	15.6%
Leverage:				
Company	$ 3,717	9.7%	$ 3,787	10.3%
U.S. Trust	$ 583	9.0%	$ 525	9.9%
U.S. Trust NY	$ 369	7.2%	$ 331	8.0%

(1) Minimum tier 1 capital, total capital, and tier 1 leverage ratios are 4%, 8%, and 3%-5%, respectively, for bank holding companies and banks. Well-capitalized tier 1 capital, total capital, and tier 1 leverage ratios are 6%, 10%, and 5%, respectively. Each of CSC's other depository institution subsidiaries exceed the well-capitalized standards set forth by the banking regulatory authorities.

Based on their respective regulatory capital ratios at March 31, 2002 and 2001, the Company, U.S. Trust and U.S. Trust NY are considered well capitalized (the highest category). There are no conditions or events that management believes have changed the Company's, U.S. Trust's, and U.S. Trust NY's well-capitalized status.

Schwab and SCM are subject to the Uniform Net Capital Rule under the Securities Exchange Act of 1934 (the Rule). Schwab and SCM compute net capital under the alternative method permitted by this Rule. This method requires the maintenance of minimum net capital, as defined, of the greater of 2% of aggregate debit balances arising from client transactions or a minimum dollar amount, which is based on the type of business conducted by the broker-dealer. The minimum dollar amount for both Schwab and SCM is $1 million. Under the alternative method, a broker-dealer may not repay subordinated borrowings, pay cash dividends, or make any unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar amount requirement. At March 31, 2002, Schwab's net capital was $1.2 billion (12% of aggregate debit balances), which was $990 million in excess of its minimum required net capital and $697 million in excess of 5% of aggregate debit balances. At March 31, 2002, SCM's net capital was $21 million, which was $20 million in excess of its minimum required net capital.

10. Commitments and Contingent Liabilities

The nature of the Company's business subjects it to claims, lawsuits, regulatory examinations and other proceedings in the ordinary course of business. The results of these matters cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on the Company's results of operations in any future period, depending partly on the results for that period, and a substantial judgment could have a material adverse impact on the Company's financial condition and results of operations. However, it is the opinion of management, after consultation with legal counsel, that the ultimate outcome of these matters will not have a material adverse impact on the financial condition or operating results of the Company.

11. Segment Information

The Company structures its segments according to its various types of clients and the services provided to those clients. These segments have been aggregated, based on similarities in economic characteristics, types of clients, services provided, distribution channels, and regulatory environment, into four reportable segments - Individual Investor, Institutional Investor, Capital Markets, and U.S. Trust.

Financial information for the Company's reportable segments is presented in the following table. The Company evaluates the performance of its segments based on adjusted operating income before taxes, which excludes restructuring and other charges, merger- and acquisition-related charges, and extraordinary gains. Intersegment revenues are not material and are therefore not disclosed. Total revenues, income before taxes on income and extraordinary gain, and net income are equal to the Company's consolidated amounts as reported in the condensed consolidated statement of income.

	Three Months Ended March 31, 2002	2001
Revenues		

Individual Investor	$ 616	$ 692
Institutional Investor	213	213
Capital Markets	63	126
U.S. Trust	167	169
Total	$ 1,059	$ 1,200
Operating income before taxes		
Individual Investor	$ 66	$ 66
Institutional Investor	64	71
Capital Markets	8	20
U.S. Trust (1)	35	37
Operating income before taxes	173	194
Restructuring charges (2)	(27)	
Merger- and acquisition-related charges (3)	(16)	(30)
Income before taxes on income and extraordinary gain	130	164
Tax expense on income	48	67
Extraordinary gain on sale of corporate trust business, net of tax of $10	12	
Net Income	$ 94	$ 97

(1) Excludes an extraordinary pre-tax gain of $22 million for the three months ended March 31, 2002 (see note "5 - Sale of Corporate Trust Business").

(2) Includes costs relating to workforce, facilities, systems hardware, software, and equipment reductions.

(3) Includes retention program compensation related to the merger with USTC, and intangible asset amortization and retention program compensation related to the acquisition of CyberTrader. For the three months ended March 31, 2001, amount also includes goodwill amortization, which ceased on January 1, 2002 upon the adoption of SFAS No. 142 (see note "2 - Accounting Change").

12. Supplemental Cash Flow Information

Certain information affecting the cash flows of the Company follows:

	Three Months Ended March 31, 2002	2001
Income taxes paid	$ 11	$ 24
Interest paid:		
Brokerage client cash balances	$ 53	$ 270
Deposits from banking clients	22	41
Long-term debt	26	28
Stock-lending activities		9
Short-term borrowings	7	5
Total interest paid	$ 108	$ 353
Non-cash investing and financing activities:		
Common stock and options issued for purchases of businesses		$ 6

THE CHARLES SCHWAB CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Description of Business

The Company: The Charles Schwab Corporation (CSC) and its subsidiaries (collectively referred to as the Company) provide securities brokerage and related financial services for 7.9 million active client accounts(a). Client assets in these accounts totaled $857.7 billion at March 31, 2002. Charles Schwab & Co., Inc. (Schwab) is a securities broker-dealer with 396 domestic branch offices in 48 states, as well as branches in the Commonwealth of Puerto Rico and the U.S. Virgin Islands. U.S. Trust Corporation (USTC, and with its subsidiaries collectively referred to as U.S. Trust) is a wealth management firm that through its subsidiaries also provides fiduciary services and private banking services with 34 offices in 12 states. Other subsidiaries include Charles Schwab Europe, a retail securities brokerage firm located in the United Kingdom, Charles Schwab Investment Management, Inc., the investment advisor for Schwab's proprietary mutual funds, Schwab Capital Markets L.P. (SCM), a market maker in Nasdaq and other securities providing trade execution services primarily to broker-dealers and institutional clients, and CyberTrader, Inc. (CyberTrader), an electronic trading technology and brokerage firm providing services to highly active, online investors.

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

The Company provides financial services to individuals, institutional clients and broker-dealers through four segments - Individual Investor, Institutional Investor, Capital Markets, and U.S. Trust. The Individual Investor segment includes the Company's domestic and international retail operations. The Institutional Investor segment provides custodial, trading, and support services to independent financial advisors, serves company 401(k) plan sponsors and third-party administrators, and supports company stock option plans and stock purchase programs. The Capital Markets segment provides trade execution services in Nasdaq, exchange-listed, and other securities primarily to broker-dealers, including Schwab, and institutional clients. The U.S. Trust segment provides investment and wealth management, fiduciary services, and private banking services to individual and institutional clients.

Business Strategy: In 2001, the Company focused on aligning its infrastructure and resources with its current strategic priorities, which include:

- providing the spectrum of affluent investors with the advice, relationships, and choices that support their desired investment outcomes;
- delivering the information, technology, service, and pricing needed to remain a leader in serving active traders;
- providing individual investing services through employers, including retirement and option plans as well as personal brokerage accounts;
- offering selected banking services and developing investment products that give clients greater control and understanding of their finances;
- retaining a strong capital markets business to address investors' financial product and trade execution needs; and
- continuing to provide high quality service to clients with smaller investment portfolios.

For further discussion of the Company's business strategy, see "Management's Discussion and Analysis of Results of Operations and Financial Condition - Description of Business - Business Strategy" in the Company's 2001 Annual Report to Stockholders, which is filed as Exhibit 13.1 to the Company's Form 10-K for the year ended December 31, 2001. See also "Products, Services, and Advice Offerings" in the Company's Form 10-K for the year ended December 31, 2001. Significant recent developments relating to these strategic priorities, as well as other significant developments, follows:

Services for Affluent Investors: In the first quarter of 2002, the Company established the Schwab Advisor Network, the successor to the Schwab AdvisorSource referral program. This program strengthens the Schwab/advisor/client relationship through a pricing model that allows for sharing fee income on referred accounts, and features independent financial advisors more prominently in advertising that targets affluent investors. Schwab also improved its Managed Account Select offering, which enables independent financial advisors to provide their clients with access to pre-screened money managers under a single-fee structure, by adding fixed income managers to the group for the first time. The Company launched a new print advertising campaign, during the first quarter of 2002, to increase awareness of the U.S. Trust brand and educate investors about wealth management. The Company also made several enhancements to U.S. Trust's online services - clients can now download their account information into selected financial software programs, view their portfolio asset allocations in real-time, and make bill payments directly from the Web site.

Services for Active Traders: During the first quarter of 2002, the Company initiated a pilot program that allows clients to experience the active trader offering firsthand by meeting with a specially trained field consultant in a branch office. These field consultants have received training on market structures as well as active trading strategies and technologies.

Corporate Services: The Company made several improvements to its retirement, stock option, and stock purchase plan offerings in the first quarter of 2002. The Company created a Corporate Services division, integrating the Company's investment and brokerage services for corporations under a single division. The Company introduced SchwabPlan Select, a comprehensive bundled 401(k) plan for retirement plans with assets between $2 million and $20 million. Under SchwabPlan Select, plan sponsors can build investment menus from hundreds of different mutual funds and participants have full access to Schwab's online planning and education tools, regional client telephone service centers, and Web support. The Company also initiated the 401(k) Checkup, a complimentary initial consultation in which a Schwab investment consultant works with current and prospective clients to evaluate their current retirement plan holdings, compare them to alternative choices, and make asset allocation recommendations based on the individual's personal goals. Additionally, the Company introduced a live interactive seminar called `Stock Option Strategies and Issues' for clients looking for information on what to consider when developing a personalized stock option strategy. This is the second in a series of three seminars that are being presented across the country; the other two cover the fundamentals of stock options and stock purchase plans.

Banking and Other Financial Products: The Company anticipates filing an application to charter a new bank in the second quarter of 2002 and, subject to regulatory approval, expects to commence banking operations in late 2002 or early 2003.

Capital Markets: To meet growing client demand for fixed income information, Schwab began offering new issue bond alerts on its Web site. Client assets in fixed income securities were a record $108.4 billion at March 31, 2002, an increase of $14.8 billion, or 16%, from a year ago. The Company also commenced, through selective hirings, the expansion of its institutional equity capabilities to focus on improving execution capabilities for all clients.

Other Significant Developments: The Company demonstrated continued leadership in combining people and technology through several important technology-based initiatives during the first quarter of 2002. Schwab enhanced its Web site to include a new section called `My Home' that allows clients to view and manage all of their account balances, watch lists, quotes, research, and market information on one customizable page. Similarly, for prospective clients, Schwab simplified the Web site navigation process to facilitate client contact with Schwab representatives. Also, quotes on money market yields and bill pay enrollment are now available online.

Mutual fund-based investing remains an important element of the Company's Core & ExploreTM investing philosophy. In the first quarter of 2002, Schwab redesigned its Mutual Fund Select List to include qualitative analyses for each asset class as well as an integrated view that includes asset class summaries, category descriptions, and average expenses for each fund, presented together on a single page. In addition, to support service representatives' fund-related advice interactions, Schwab's internal Mutual Fund Web site now provides representatives with Morningstar analysis on over 1,400 funds.

Risk Management

For discussion on the Company's principal risks and some of the policies and procedures for risk identification, assessment, and mitigation, see "Management's Discussion and Analysis of Results of Operations and Financial Condition - Risk Management" in the Company's 2001 Annual Report to Stockholders, which is filed as Exhibit 13.1 to the Company's Form 10-K for the year ended December 31, 2001. See Liquidity and Capital Resources of this report for a discussion on liquidity risk; and see Item 3 - Quantitative and Qualitative Disclosures About Market Risk for additional information relating to market risk.

Given the nature of the Company's revenues, expenses, and risk profile, the Company's earnings and CSC's common stock price may be subject to significant volatility from period to period. The Company's results for any interim period are not necessarily indicative of results for a full year or any other interim period. Risk is inherent in the Company's business. Consequently, despite the Company's attempts to identify areas of risk, oversee operational areas involving risk, and implement policies and procedures designed to mitigate risk, there can be no assurance that the Company will not suffer unexpected losses due to operating or other risks.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are identified by words such as "believe," "expect," "intend," "plan," "will," "may," and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements, which reflect management's beliefs, objectives, and expectations as of the date hereof, are necessarily estimates based on the best judgment of the Company's senior management. These statements relate to, among other things, the Company's ability to achieve its strategic priorities (see Description of Business - Business Strategy), goodwill impairment (see Expenses Excluding Interest), sources of liquidity and capital (see Liquidity and Capital Resources - Liquidity and - Commitments), the Company's cash position and cash flows (see Liquidity and Capital Resources - Cash Flows and Capital Resources) and contingent liabilities (see Part II - Other Information, Item 1 - Legal Proceedings). Achievement of the expressed expectations is subject to certain risks and uncertainties that could cause actual results to differ materially from the expressed expectations described in these statements. Important factors that may cause such differences are noted in this interim report and include, but are not limited to: the effect of client trading patterns on Company revenues and earnings; changes in revenues and profit margin due to cyclical securities markets and fluctuations in interest rates; the level and volatility of equity prices; a significant downturn in the securities markets over a short period of time or a sustained decline in securities prices and trading volumes; the Company's inability to attract and retain key personnel; the timing and impact of changes in the Company's level of investments in personnel, technology, or advertising; changes in technology; computer system failures and security breaches; evolving legislation, regulation, and changing industry practices adversely affecting the Company; adverse results of litigation; the inability to obtain external financing at acceptable rates; a significant decline in the real estate market, including the Company's ability to sublease certain properties; and the effects of competitors' pricing, product and service decisions, and intensified industry competition and consolidation.

Critical Accounting Policies

Certain of the Company's accounting policies that involve a higher degree of judgment and complexity are discussed in "Management's Discussion and Analysis of Results of Operations and Financial Condition - Critical Accounting Policies" in the Company's 2001 Annual Report to Stockholders, which is filed as Exhibit 13.1 to the Company's Form 10-K for the year ended December 31, 2001. There have been no material changes to these critical accounting policies in the first quarter of 2002.

Three Months Ended March 31, 2002 Compared To Three Months Ended March 31, 2001

All references to earnings per share information in this report reflect diluted earnings per share unless otherwise noted.

FINANCIAL OVERVIEW

The Company's financial performance in the first quarter of 2002 was adversely affected by declines in client trading activity as investor confidence continued to be weighed down by mixed economic news, concerns about corporate accounting, and recent world events. In the difficult market environment that prevailed during the first quarter of 2002, daily average revenue trades decreased 25% and average revenue per share traded in the Capital Markets segment decreased 57% from year-earlier levels. As a result of these two factors, the Company's trading revenues in the first quarter of 2002 decreased 30% from the first quarter of 2001 and total revenues decreased 12% for the same period.

Non-trading revenues, which include asset management and administration fees, interest revenue, net of interest expense (referred to as net interest revenue), and other revenues, were flat overall in the first quarter of 2002 compared to the year-ago level. Average margin loans to clients in the first quarter of 2002 decreased 35% from year-ago levels, which greatly contributed to the 14% decrease in net interest revenue. This decrease was offset by an increase in asset management and administration fees, primarily resulting from an increase in assets in Schwab's proprietary funds (collectively referred to as the SchwabFunds) at March 31, 2002 from the year-ago level.

Total expenses excluding interest during the first quarter of 2002 were $929 million, down 10% from $1.0 billion during the first quarter of 2001. This decrease resulted primarily from the Company's continued expense reduction measures, including the restructuring plan implemented during 2001. Excluding the non-operating charges as detailed in the following table, expenses during the first quarter of 2002 were $886 million, down 12% from $1.0 billion during the first quarter of 2001.

In 2001, U.S. Trust sold its Corporate Trust business to The Bank of New York Company, Inc. During the first quarter of 2002, the Company recorded an extraordinary gain of $22 million, or $12 million after tax, which represented the remaining proceeds from this sale that were realized upon satisfaction of certain client retention requirements.

In evaluating the Company's financial performance, management uses adjusted operating income, which excludes non-operating items as detailed in the following table. The Company's after-tax operating income for the first quarter of 2002 was $108 million, down 10% from the first quarter of 2001, and its after-tax operating profit margin for the first quarter of 2002 was 10.2%, up from 10.0% for the first quarter of 2001. A reconciliation of the Company's operating income to net income is shown in the following table (in millions):

	Three Months Ended March 31, 2002	2001	Percent Change

Operating income, after tax	$ 108	$ 120	(10%)
Non-operating items:			
Extraordinary gain (1)	22		
Restructuring charges (2)	(27)		
Merger- and acquisition-related charges (3)	(16)	(30)	(47)
Total non-operating items	(21)	(30)	(30)
Tax effect	7	7	
Total non-operating items, after tax	(14)	(23)	(39)
Net income	$ 94	$ 97	(3%)

(1) Represents the remaining proceeds from the sale of USTC's Corporate Trust business.
(2) Includes costs relating to workforce, facilities, systems hardware, software, and equipment reductions.
(3) Includes retention program compensation related to the merger with USTC, and intangible asset amortization and retention program compensation related to the acquisition of CyberTrader. For the three months ended March 31, 2001, amount also includes goodwill amortization, which ceased on January 1, 2002 upon the adoption of Statement of Financial Accounting Standards No. 142.

The Company's operating income before taxes for the first quarter of 2002 was $173 million, down $21 million, or 11%, from the first quarter of 2001 primarily due to decreases of $7 million, or 10%, in the Institutional Investor segment and $12 million, or 60%, in the Capital Markets segment. The decrease in the Capital Markets segment was primarily due to lower average revenue per share traded and lower levels of trading activity.

The Company's net income for the first quarter of 2002 was $94 million, or $.07 per share, compared to $97 million, or $.07 per share, for the first quarter of 2001. The Company's after-tax profit margin for the first quarter of 2002 was 8.9%, up from 8.1% for the first quarter of 2001.

The annualized return on stockholders' equity for the first quarter of 2002 was 9%, unchanged from the same period last year.

REVENUES

Revenues declined $141 million, or 12%, to $1.1 billion in the first quarter of 2002 compared to the first quarter of 2001, due to a $105 million, or 26%, decrease in commission revenues, a $44 million, or 46%, decrease in principal transaction revenues, and a $36 million, or 14%, decrease in net interest revenue. These declines were partially offset by a $33 million, or 8%, increase in asset management and administration fees and an $11 million, or 38%, increase in other revenues. As trading volumes decreased substantially during the first quarter of 2002, the Company's non-trading revenues represented 67% of total revenues as compared to 58% for the first quarter of 2001 as shown in the following table:

Composition of Revenues	Three Months Ended March 31, 2002	2001
Commissions	29%	34%
Principal transactions	4	8
Total trading revenues	33	42
Asset management and administration fees	42	34
Net interest revenue	21	21
Other	4	3

Total non-trading revenues	67	58
Total	100%	100%

While the Individual Investor and Institutional Investor segments generate both trading and non-trading revenues, the Capital Markets segment generates primarily trading revenues and the U.S. Trust segment generates primarily non-trading revenues. The $141 million decline in revenues from the first quarter of 2001 was primarily due to decreases in revenues of $76 million, or 11%, in the Individual Investor segment and $63 million, or 50%, in the Capital Markets segment. See note "11 - Segment Information" in the Notes to Condensed Consolidated Financial Statements for financial information by segment.

Asset Management and Administration Fees

Asset management and administration fees include mutual fund service fees, as well as fees for other asset-based financial services provided to individual and institutional clients. The Company earns mutual fund service fees for recordkeeping and shareholder services provided to third-party funds, and for transfer agent services, shareholder services, administration, and investment management provided to its proprietary funds. These fees are based upon the daily balances of client assets invested in third-party funds and upon the average daily net assets of the Company's proprietary funds. Mutual fund service fees are earned primarily through the Individual Investor and Institutional Investor segments. The Company also earns asset management and administration fees for financial services, including investment management and consulting, trust and fiduciary services, financial and estate planning, and private banking services, provided to individual and institutional clients. These fees are primarily based on the value and composition of assets under management and are earned primarily through the U.S. Trust, Individual Investor, and Institutional Investor segments.

Asset management and administration fees were $444 million for the first quarter of 2002, up $33 million, or 8%, from the first quarter of 2001, as shown in the following table (in millions):

Asset Management and Administration Fees	Three Months Ended March 31, 2002	2001	Percent Change
Mutual fund service fees:			
Proprietary funds (SchwabFunds(R)and Excelsior(R))	$220	$190	16%
Mutual Fund OneSource(R)	71	72	(1)
Other	10	10	
Asset management and related services	143	139	3
Total	$444	$411	8%

The increase in asset management and administration fees was primarily due to increases in SchwabFunds assets, which led to an increase in service fees.

Assets in client accounts were $857.7 billion at March 31, 2002, an increase of $51.9 billion, or 6%, from a year ago as shown in the following table. This increase from a year ago included net new client assets of $58.1 billion, partially offset by net market losses of $6.2 billion related to client accounts.

Growth in Client Assets and Accounts (In billions, at quarter end, except as noted)	March 31, 2002	2001	Percent Change
Assets in client accounts			

Schwab One(R), other cash equivalents and deposits from banking clients	$ 29.2	$ 28.8	1%
Proprietary funds (SchwabFunds(R) and Excelsior(R)):			
Money market funds	130.0	125.5	4
Equity and bond funds	33.2	27.7	20
Total proprietary funds	163.2	153.2	7
Mutual Fund Marketplace(R)(1):			
Mutual Fund OneSource(R)	90.3	84.2	7
Mutual Fund clearing services	22.3	19.1	17
All other	78.8	68.7	15
Total Mutual Fund Marketplace	191.4	172.0	11
Total mutual fund assets	354.6	325.2	9
Equity and other securities (1)	374.7	370.0	1
Fixed income securities	108.4	93.6	16
Margin loans outstanding	(9.2)	(11.8)	(22)
Total client assets	$857.7	$ 805.8	6%
Net growth in assets in client accounts (for the quarter ended)			
Net new client assets	$ 15.4	$ 30.9	
Net market losses	(3.6)	(96.8)	
Net growth (decline)	$ 11.8	$ (65.9)	
New client accounts (in thousands, for the quarter ended)	232.3	280.4	(17%)
Active client accounts (in millions) (2)	7.9	7.6	4%
Active online Schwab client accounts (in millions) (3)	4.3	4.3	
Online Schwab client assets	$341.9	$ 327.9	4%

(1) Excludes money market funds and all proprietary money market, equity, and bond funds.
(2) Active accounts are defined as accounts with balances or activity within the preceding eight months.
(3) Active online accounts are defined as all accounts within a household that has had at least one online session within the past twelve months.

Commissions

The Company earns commission revenues by executing client trades primarily through the Individual Investor and Institutional Investor segments. These revenues are affected by the number of client accounts that trade, the average number of commission-generating trades per account, and the average commission per trade. Commission revenues for the Company were $303 million for the first quarter of 2002, down $105 million, or 26%, from the first quarter of 2001.

The Company's client trading activity is shown in the following table (in thousands):

	Three Months Ended March 31, 2002	2001	Percent Change
Daily Average Trades			

Revenue Trades			
Online	123.9	165.5	(25%)
TeleBroker(R)and Schwab by PhoneTM	6.7	9.0	(26)
Regional client telephone service centers, branch offices and other	16.8	21.3	(21)
Total	147.4	195.8	(25%)
Mutual Fund OneSource(R) Trades			
Online	46.4	38.8	20%
TeleBroker and Schwab by Phone	.5	.5	
Regional client telephone service centers, branch offices and other	11.6	18.4	(37)
Total	58.5	57.7	1%
Total Daily Average Trades			
Online	170.3	204.3	(17%)
TeleBroker and Schwab by Phone	7.2	9.5	(24)
Regional client telephone service centers, branch offices and other	28.4	39.7	(28)
Total	205.9	253.5	(19%)

As shown in the following table, the total number of revenue trades executed by the Company has decreased 27% as the number of client accounts that traded and client trading activity per account have declined.

Commissions Earned on Client Revenue Trades	Three Months Ended March 31, 2002	2001	Percent Change
Client accounts that traded during the quarter (in thousands)	1,374	1,613	(15%)
Average client revenue trades per account that traded	6.44	7.53	(14)
Total revenue trades (in thousands)	8,851	12,149	(27)
Number of trading days	60	62	(3)
Average commission per revenue trade	$36.03	$33.81	7
Commissions earned on client revenue trades (in millions) (1)	$ 319	$ 411	(22)

(1) Includes certain non-commission revenues relating to the execution of client trades. Excludes commissions on trades relating to specialist operations and U.S. Trust commissions on trades.

Net Interest Revenue

Net interest revenue is the difference between interest earned on assets (mainly margin loans to clients, investments required to be segregated for clients, securities available for sale, and private banking loans) and interest paid on liabilities (mainly brokerage client cash balances and banking deposits). Net interest revenue is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and hedging strategies.

Most of the Company's net interest revenue is earned through the Individual Investor, Institutional Investor, and U.S. Trust segments.

Net interest revenue was $221 million for the first quarter of 2002, down $36 million, or 14%, from the first quarter of 2001 as shown in the following table (in millions):

	Three Months Ended March 31, 2002	2001	Percent Change
Interest Revenue			
Margin loans to clients	$ 133	$ 302	(56%)
Investments, client-related	86	158	(46)
Private banking loans	60	58	3
Securities available for sale	17	21	(19)
Other	19	50	(62)
Total	315	589	(47)
Interest Expense			
Brokerage clients cash balances	52	264	(80)
Deposits from banking clients	22	40	(45)
Long-term debt	13	14	(7)
Short-term borrowings	6	4	50
Stock-lending activities	1	9	(89)
Other		1	n/m
Total	94	332	(72)
Net interest revenue	$ 221	$ 257	(14%)

n/m Not meaningful.

Client-related and other daily average balances, interest rates, and average net interest spread for the first quarters of 2002 and 2001 are summarized in the following table (dollars in millions):

	Three Months Ended March 31, 2002	2001
Interest-Earning Assets (client-related and other):		
Investments (client-related):		
Average balance outstanding	$ 17,907	$ 11,952
Average interest rate	1.94%	5.37%
Margin loans to clients:		
Average balance outstanding	$ 9,283	$ 14,272
Average interest rate	5.79%	8.57%
Private banking loans:		
Average balance outstanding	$ 4,063	$ 3,064
Average interest rate	5.99%	7.68%
Securities available for sale:		
Average balance outstanding	$ 1,445	$ 1,343
Average interest rate	4.86%	6.23%
Average yield on interest-earning assets	3.67%	7.13%
Funding Sources (client-related and other):		
Interest-bearing brokerage client cash balances:		
Average balance outstanding	$ 23,580	$ 22,504
Average interest rate	0.91%	4.76%
Interest-bearing banking deposits:		
Average balance outstanding	$ 3,866	$ 3,333
Average interest rate	2.30%	4.90%
Other interest-bearing sources:		
Average balance outstanding	$ 1,009	$ 1,449
Average interest rate	2.24%	4.73%
Average noninterest-bearing portion	$ 4,242	$ 3,345
Average interest rate on funding sources	1.01%	4.25%
Summary:		
Average yield on interest-earning assets	3.67%	7.13%

Average interest rate on funding sources	1.01%	4.25%
Average net interest spread	2.66%	2.88%

The decrease in net interest revenue from the first quarter of 2001 was primarily due to lower levels of, and lower rates received on, margin loans to clients, as well as lower rates received on client-related investments, partially offset by higher average balances of client-related investments and lower rates paid on brokerage client cash balances.

Principal Transactions

Principal transaction revenues are primarily comprised of net gains from market-making activities in Nasdaq and other securities effected through the Capital Markets segment, as well as revenues from client fixed income securities trading activity. Factors that influence principal transaction revenues include the volume of client trades, market price volatility, average revenue per share traded, and changes in regulations and industry practices.

Principal transaction revenues were $51 million for the first quarter of 2002, down $44 million, or 46%, from the first quarter of 2001. This decrease was primarily due to lower average revenue per share traded, which in turn was primarily caused by the change to decimal pricing, and lower share volume handled by SCM. This decrease was partially offset by higher revenues from client fixed income securities trading activity.

Other Revenues

Other revenues were $40 million for the first quarter of 2002, up $11 million, or 38%, from the first quarter of 2001. This increase was primarily due to net gains on investments in 2002, compared to net losses on investments in 2001, and a gain recorded on the sale of the Company's Canadian operations, partially offset by a decrease in payments for order flow.

EXPENSES EXCLUDING INTEREST

Total expenses excluding interest for the first quarter of 2002 declined $107 million, or 10%, from the first quarter of 2001. Total expenses excluding non-operating charges for the first quarter of 2002 declined $120 million, or 12%, from the first quarter of 2001. The Company's initiatives under its restructuring plan and other expense reduction measures have resulted in decreases in most expense categories during the first quarter of 2002 when compared to the first quarter of 2001. The Company recorded total pre-tax charges of $27 million in the first quarter of 2002 for restructuring charges under its restructuring plan initiated in the second quarter of 2001.

Compensation and benefits expense was $471 million for the first quarter of 2002, down $22 million, or 4%, from the first quarter of 2001 primarily due to a reduction in full-time equivalent employees, partially offset by a discretionary bonus to employees in the first quarter of 2002. The following table shows a comparison of certain compensation and benefits components and employee data (in thousands):

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Compensation and benefits expense as a % of total revenues	44%	41%
Variable compensation as a % of compensation and benefits expense	14%	11%
Compensation for temporary employees, contractors and overtime hours as a		

% of compensation and benefits expense	5%	7%
Full-time equivalent employees (at end of quarter) (1)	19.4	25.2
Revenues per average full-time equivalent employee	$54.2	$47.1

(1) Includes full time, part-time, and temporary employees, and persons employed on a contract basis.

Occupancy and equipment expense was $119 million for the first quarter of 2002, down $4 million, or 3%, from the first quarter of 2001. While the Company's expense reduction measures including the restructuring plan contributed to this decline, these measures were partially offset by higher occupancy costs related to new facilities.

Communications expense was $71 million for the first quarter of 2002, down $25 million, or 26%, from the first quarter of 2001. This decrease was primarily due to lower client trading volumes and the Company's expense reduction measures.

Advertising and market development expense was $53 million for the first quarter of 2002, down $41 million, or 44%, from the first quarter of 2001. This decrease was primarily a result of reductions in television and print media spending as part of the Company's expense reduction measures.

Goodwill amortization expense for the first quarter of 2001 was $16 million. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 - Goodwill and Other Intangible Assets. Upon adoption of SFAS No. 142, amortization of the existing goodwill ceased and therefore there was no such expense in the first quarter of 2002. The Company did not record any goodwill impairment charges in the first quarter of 2002, and upon completion of the initial transitional impairment test in the second quarter of 2002, management does not expect to record any such charges.

The Company's effective income tax rate was 38.2% for the first quarter of 2002, down from 40.9% for the first quarter of 2001. The decrease was primarily due to the cessation of goodwill amortization upon the adoption of SFAS No. 142 in 2002.

Liquidity and Capital Resources

CSC is a financial holding company, which is a type of bank holding company subject to supervision and regulation by the Board of Governors of the Federal Reserve System (Federal Reserve Board) under the Bank Holding Company Act of 1956, as amended. CSC conducts virtually all business through its wholly owned subsidiaries. The capital structure among CSC and its subsidiaries is designed to provide each entity with capital and liquidity consistent with its operations. See note "9 - Regulatory Requirements" in the Notes to Condensed Consolidated Financial Statements.

Liquidity

CSC

CSC's liquidity needs are generally met through cash generated by its subsidiaries, as well as cash provided by external financing. As discussed below, Schwab, CSC's depository institution subsidiaries and SCM are subject to regulatory requirements that may restrict them from certain transactions with CSC. Management believes that funds generated by the operations of CSC's subsidiaries will continue to be the primary funding source in meeting CSC's liquidity needs, meeting CSC's depository institution subsidiaries' capital guidelines, and maintaining Schwab's and SCM's net capital. Based on their respective regulatory capital ratios at March 31, 2002, the Company and its depository institution subsidiaries are considered well capitalized.

CSC has liquidity needs that arise from its issued and outstanding $679 million Senior Medium-Term Notes, Series A (Medium-Term Notes), as well as from the funding of cash dividends, acquisitions, and other investments. The Medium-Term Notes have maturities ranging from 2002 to 2010 and fixed interest rates ranging from 6.04% to 8.05% with interest payable semiannually. The

Medium-Term Notes are rated A2 by Moody's Investors Service, A by Standard & Poor's Ratings Group, and A+ by Fitch IBCA, Inc.

CSC has a prospectus supplement on file with the Securities and Exchange Commission enabling CSC to issue up to $750 million in Senior or Senior Subordinated Medium-Term Notes, Series A. At March 31, 2002, all of these notes remained unissued.

CSC has authorization from its Board of Directors to issue up to $1.2 billion in commercial paper. At March 31, 2002, no commercial paper has been issued. CSC's ratings for these short-term borrowings are P-1 by Moody's Investors Service and A-1 by Standard & Poor's Ratings Group.

CSC maintains a $1.2 billion committed, unsecured credit facility with a group of twenty-three banks which is scheduled to expire in June 2002. CSC plans to establish a similar facility to replace this one when it expires. Any issuances under CSC's commercial paper program (see above) will reduce the amount available under this facility. The funds under this facility are available for general corporate purposes and CSC pays a commitment fee on the unused balance of this facility. The financial covenants in this facility require CSC to maintain a minimum level of tangible net worth, and Schwab and SCM to maintain specified levels of net capital, as defined. Management believes that these restrictions will not have a material effect on its ability to meet foreseeable dividend or funding requirements. This facility was unused during the first three months of 2002.

CSC also has direct access to $665 million of the $845 million uncommitted, unsecured bank credit lines, provided by seven banks that are primarily utilized by Schwab to manage short-term liquidity. The amount available to CSC under these lines is lower than the amount available to Schwab because the credit line provided by one of these banks is only available to Schwab, while the credit line provided by another one of these banks includes a sub-limit on credit available to CSC. These lines were not used by CSC during the first three months of 2002.

Schwab

Liquidity needs relating to client trading and margin borrowing activities are met primarily through cash balances in brokerage client accounts, which were $24.0 billion and $25.0 billion at March 31, 2002 and December 31, 2001, respectively. Management believes that brokerage client cash balances and operating earnings will continue to be the primary sources of liquidity for Schwab in the future.

Schwab is subject to regulatory requirements that are intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations prohibit Schwab from repaying subordinated borrowings to CSC, paying cash dividends, or making unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar amount requirement of $1 million. At March 31, 2002, Schwab's net capital was $1.2 billion (12% of aggregate debit balances), which was $990 million in excess of its minimum required net capital and $697 million in excess of 5% of aggregate debit balances. Schwab has historically targeted net capital to be 10% of its aggregate debit balances, which primarily consist of client margin loans.

To manage Schwab's regulatory capital position, CSC provides Schwab with a $1.4 billion subordinated revolving credit facility maturing in September 2003, of which $220 million was outstanding at March 31, 2002. At quarter end, Schwab also had outstanding $10 million and $15 million in fixed-rate subordinated term loans from CSC maturing in 2003 and 2004, respectively. Borrowings under these subordinated lending arrangements qualify as regulatory capital for Schwab.

To manage short-term liquidity, Schwab maintains uncommitted, unsecured bank credit lines with a group of seven banks totaling $845 million at March 31, 2002 (as noted previously, $665 million of these lines are also available for CSC to use). The need for short-term borrowings arises primarily from timing differences between cash flow requirements and the scheduled liquidation of interest-bearing investments. Schwab used such borrowings for 1 day during the first three months of 2002, with the amount borrowed totaling $15 million. There were no borrowings outstanding under these lines at March 31, 2002.

To satisfy the margin requirement of client option transactions with the Options Clearing Corporation (OCC), Schwab had unsecured letter of credit agreements with eleven banks in favor of the OCC aggregating $805 million at

March 31, 2002. Schwab pays a fee to maintain these letters of credit. No funds were drawn under these letters of credit at March 31, 2002.

U.S. Trust

U.S. Trust's liquidity needs are generally met through earnings generated by its operations.

U.S. Trust is subject to the Federal Reserve Board's risk-based and leverage capital guidelines. These regulations require banks and bank holding companies to maintain minimum levels of capital. In addition, CSC's depository institution subsidiaries are subject to limitations on the amount of dividends they can pay to USTC.

In addition to traditional funding sources such as deposits, federal funds purchased, and repurchase agreements, CSC's depository institution subsidiaries have established their own external funding sources. At March 31, 2002, U.S. Trust had $50 million in Trust Preferred Capital Securities outstanding with a fixed interest rate of 8.41%. Certain of CSC's depository institution subsidiaries have established credit facilities with the Federal Home Loan Bank System (FHLB) totaling $711 million. At March 31, 2002, $375 million in short-term borrowings and $1 million in long-term debt were outstanding under these facilities. Additionally, at March 31, 2002, U.S. Trust had $673 million of federal funds purchased outstanding.

CSC provides U.S. Trust with a $300 million short-term credit facility maturing in 2003. Borrowings under this facility do not qualify as regulatory capital for U.S. Trust. The amount outstanding under this facility was $40 million at March 31, 2002.

SCM

SCM's liquidity needs are generally met through earnings generated by its operations. Most of SCM's assets are liquid, consisting primarily of cash and cash equivalents, marketable securities, and receivables from brokers, dealers and clearing organizations.

SCM's liquidity is affected by the same net capital regulatory requirements as Schwab (see discussion above). At March 31, 2002, SCM's net capital was $21 million, which was $20 million in excess of its minimum required net capital.

SCM may borrow up to $70 million under a subordinated lending arrangement with CSC maturing in 2003. Borrowings under this arrangement qualify as regulatory capital for SCM. In addition, CSC provides SCM with a $50 million short-term credit facility. Borrowings under this arrangement do not qualify as regulatory capital for SCM. No funds were drawn under these facilities at March 31, 2002.

Liquidity Risk Factors

Specific risk factors which may affect the Company's liquidity position are discussed in "Management's Discussion and Analysis of Results of Operations and Financial Condition - Liquidity and Capital Resources - Liquidity Risk Factors" in the Company's 2001 Annual Report to Stockholders, which is filed as Exhibit 13.1 to the Company's Form 10-K for the year ended December 31, 2001. There have been no material changes to these liquidity risk factors in the first quarter of 2002.

Cash Flows and Capital Resources

Net income plus depreciation and amortization including goodwill amortization was $177 million for the first quarter of 2002, down 10% from $197 million for the first quarter of 2001. Depreciation and amortization expense related to equipment, office facilities and property was $80 million for the first quarter of 2002, as compared to $81 million for the first quarter of 2001, or 8% and 7% of revenues for each period, respectively. Amortization expense related to intangible assets was $3 million for each of the first quarters of 2002 and 2001. Goodwill amortization expense was $16 million for the first quarter of 2001.

The Company's cash position (reported as cash and cash equivalents on the condensed consolidated balance sheet) and cash flows are affected by changes in brokerage client cash balances and the associated amounts required to be segregated under federal or other regulatory guidelines. Timing differences between cash and investments actually segregated on a given date and the amount required to be segregated for that date may arise in the ordinary course of business and are addressed by the Company in accordance with applicable regulations. Other factors which affect the Company's cash position and cash flows include investment activity in securities owned, levels of capital expenditures, banking client deposit and loan activity, financing activity in short-term borrowings and long-term debt, and repurchases of CSC's common stock. In the first quarter of 2002, cash and cash equivalents decreased $2.6 billion, or 58%, to $1.9 billion primarily due to movements of brokerage client-related funds to meet segregation requirements, as well as decreases in banking client deposits. Management does not believe that this decline in cash and cash equivalents is an indication of a trend.

The Company's capital expenditures were $32 million in the first quarter of 2002 and $129 million in the first quarter of 2001, or 3% and 11% of revenues for each period, respectively. Capital expenditures in the first quarter of 2002 were for software and equipment relating to the Company's information technology systems and certain facilities. Capital expenditures as described above include the capitalized costs for developing internal-use software of $16 million in the first quarter of 2002 and $25 million in the first quarter of 2001. Schwab opened 1 new domestic branch office during the first quarter of 2002, as compared to 14 for the first quarter of 2001. Capital expenditures may vary from period to period as business conditions change.

During the first quarter of 2002, 2,066,100 of the Company's stock options, with a weighted-average exercise price of $7.08, were exercised with cash proceeds received by the Company of $15 million and a related tax benefit of $3 million. The cash proceeds are recorded as an increase in cash and a corresponding increase in stockholders' equity. The tax benefit is recorded as a reduction in income taxes payable and a corresponding increase in stockholders' equity.

During the first quarter of 2002, CSC did not repurchase any of its common stock. During the first quarter of 2001, CSC repurchased 1,175,000 shares of its common stock for $18 million. At March 31, 2002, the authorization granted by the Board of Directors allows for future repurchases of CSC's common stock totaling up to $399 million.

During each of the first quarters of 2002 and 2001, the Company paid common stock cash dividends of $15 million.

The Company monitors both the relative composition and absolute level of its capital structure. The Company's total financial capital (long-term debt plus stockholders' equity) at March 31, 2002 was $5.0 billion, up $105 million, or 2%, from December 31, 2001. At March 31, 2002, the Company had long-term debt of $730 million, or 15% of total financial capital, that bear interest at a weighted-average rate of 7.35%. At March 31, 2002, the Company's stockholders' equity was $4.3 billion, or 85% of total financial capital.

Commitments

A summary of the Company's principal contractual obligations and other commitments as of March 31, 2002 is shown in the following table. Management believes that funds generated by its operations will continue to be the primary funding source in meeting these obligations and commitments.

	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total
Operating leases (1)	$ 202	$ 845	$252	$ 757	$2,056
Long-term debt	114	237	106	273	730
Short-term borrowings	1,213				1,213
Merger-retention programs (2)	104				104
Credit-related financial instruments (3)	553	119			672
Other commitments (4)	6				6
Total	$2,192	$1,201	$358	$1,030	$4,781

(1) Includes minimum rental commitments and maximum guaranteed residual values

under noncancelable leases for office space and equipment.

(2) Includes commitments under merger-retention programs for employees of U.S. Trust.

(3) Includes U.S. Trust firm commitments to extend credit primarily for mortgage loans to private banking clients and standby letters of credit.

(4) Includes committed capital contributions to venture capital funds.

In addition to the commitments summarized above, in the ordinary course of its business the Company has entered into various agreements with third-party vendors, including agreements for advertising, sponsorships of sporting events, data processing equipment purchases, licensing, and software installation. These agreements typically can be canceled by the Company if notice is given within the terms specified in the agreements.

Item 3. Quantitative and Qualitative Disclosures
About Market Risk

Financial Instruments Held For Trading Purposes

The Company held municipal, other fixed income and government securities, and certificates of deposit with a fair value of approximately $43 million and $59 million at March 31, 2002 and 2001, respectively. These securities, and the associated interest rate risk, are not material to the Company's financial position, results of operations or cash flows.

The Company maintains inventories in exchange-listed, Nasdaq, and other equity securities on both a long and short basis. The fair value of these securities at March 31, 2002 was $160 million in long positions and $35 million in short positions. The fair value of these securities at March 31, 2001 was $40 million in long positions and $35 million in short positions. Using a hypothetical 10% increase or decrease in prices, the potential loss or gain in fair value is estimated to be approximately $13 million and $500,000 at March 31, 2002 and 2001, respectively, due to the offset of change in fair value in long and short positions. In addition, the Company generally enters into exchange-traded futures and options to hedge against potential losses in equity inventory positions, thus offsetting this potential loss exposure. A hypothetical 10% change in fair value of the futures and options at March 31, 2002 and 2001 would substantially offset the potential loss or gain on the equity securities discussed above. The notional amount and fair value of futures and options were not material to the Company's consolidated balance sheets at March 31, 2002 and 2001.

Financial Instruments Held For Purposes Other Than Trading

The Company maintains investments in mutual funds related to its deferred compensation plan, which is available to certain employees. These investments were approximately $62 million at March 31, 2002 and 2001. These securities, and the associated market risk, are not material to the Company's financial position, results of operations or cash flows.

Debt Issuances

At March 31, 2002, CSC had $679 million aggregate principal amount of Medium-Term Notes, with fixed interest rates ranging from 6.04% to 8.05%. At March 31, 2001, CSC had $716 million aggregate principal amount of Medium-Term Notes, with fixed interest rates ranging from 6.04% to 8.05%. At March 31, 2002 and 2001, U.S. Trust had $50 million Trust Preferred Capital Securities outstanding, with a fixed interest rate of 8.41%. In addition at March 31, 2002 and 2001, U.S. Trust had $1 million and $2 million FHLB long-term debt outstanding, respectively. The FHLB long-term debt had a fixed interest rate of 6.69% at March 31, 2002 and fixed interest rates ranging from 6.69% to 6.76% at March 31, 2001.

The Company has fixed cash flow requirements regarding these long-term debt obligations due to the fixed rate of interest. The fair value of these obligations at March 31, 2002 and 2001, based on estimates of market rates for debt with similar terms and remaining maturities, approximated their carrying amount.

Net Interest Revenue Simulation

The Company uses net interest revenue simulation modeling techniques to evaluate and manage the effect of changing interest rates. The simulation model (the model) includes all interest-sensitive assets and liabilities, as well as Swaps utilized by U.S. Trust to hedge its interest rate risk. Key variables in the model include assumed margin loan and brokerage client cash balance growth or decline, changes to the level and term structure of interest rates, the repricing of financial instruments, prepayment and reinvestment assumptions, loan, banking deposit, and brokerage client cash balance pricing and volume assumptions. The simulations involve assumptions that are inherently uncertain and as a result, the simulations cannot precisely estimate net interest revenue or precisely predict the impact of changes in interest rates on net interest revenue. Actual results may differ from simulated results due to the timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies, including changes in asset and liability mix.

As demonstrated by the simulations presented below, the Company is positioned so that the consolidated balance sheet produces an increase in net interest revenue when interest rates rise and, conversely, a decrease in net interest revenue when rates fall (i.e., interest-earning assets are repricing more quickly than interest-bearing liabilities). U.S. Trust's interest-bearing liabilities are positioned to reprice more quickly than interest-earning assets, which naturally offsets a portion of Schwab's asset-sensitive interest-rate risk exposure.

The simulations in the following table assume that the asset and liability structure of the consolidated balance sheet would not be changed as a result of the simulated changes in interest rates. As the Company actively manages its consolidated balance sheet and interest rate exposure, in all likelihood the Company would take steps to manage any additional interest rate exposure that could result from changes in the interest rate environment. The following table shows the effect of a gradual 100 basis point increase or decrease in interest rates relative to the Company's current base rate forecast on simulated net interest revenue over the next twelve months at March 31, 2002 and 2001.

Impact on Net Interest Revenue Percentage Increase (Decrease) March 31,	2002	2001
Increase of 100 basis points	1.5%	3.3%
Decrease of 100 basis points	(1.8%)	(3.1%)

The impact of the Company's hedging activities upon net interest revenue for the quarters ended March 31, 2002 and 2001 was immaterial to the Company's results of operations.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The nature of the Company's business subjects it to claims, lawsuits, regulatory examinations, and other proceedings in the ordinary course of business. The results of these matters cannot be predicted with certainty. There can be no assurance that these matters will not have a material adverse effect on the Company's results of operations in any future period, depending partly on the results for that period, and a substantial judgment could have a material adverse impact on the Company's financial condition and results of operations. However, it is the opinion of management, after consultation with legal counsel, that the ultimate outcome of these matters will not have a material adverse impact on the financial condition or operating results of the Company.

Item 2. Changes in Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

Effective February 19, 2002, Steven L. Scheid, Vice Chairman of the Company and Schwab and President - Retail of Schwab, resigned. David S. Pottruck, Co-Chief Executive Officer and President of the Company, has assumed Mr. Scheid's responsibilities while retaining his previous responsibilities.

Effective February 28, 2002, Elizabeth Gibson Sawi, Executive Vice President and Chief Administration Officer of the Company and Schwab, retired. Dawn Gould Lepore, Vice Chairman - Technology and Administration of the Company and Schwab, has assumed Ms. Sawi's responsibilities while retaining responsibility for the oversight of technology.

Effective February 28, 2002, H. Marshall Schwarz retired as Executive Vice President of the Company and Chairman of USTC and U.S. Trust NY. Because of Mr. Schwarz's retirement, he is not seeking re-election to the Company's Board of Directors at the annual meeting of stockholders on May 13, 2002. Mr. Schwarz's term on the Board of Directors will expire on that date.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibit is filed as part of this quarterly report on Form 10-Q.

Exhibit Number	Exhibit
12.1	Computation of Ratio of Earnings to Fixed Charges.

(b) Reports on Form 8-K

None.

THE CHARLES SCHWAB CORPORATION

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE CHARLES SCHWAB CORPORATION
(Registrant)

Date: May 10, 2002

/s/ Christopher V. Dodds

Christopher V. Dodds
Executive Vice President and
Chief Financial Officer