FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
SEC Accession No. 0000316709-94-000004

FILER

SCHWAB CHARLES CORP

CIK:**316709**| IRS No.: **943025021** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-09700** | Film No.: **94528279**
SIC: **6211** Security brokers, dealers & flotation companies

Mailing Address
101 MONTGOMERY ST
SAN FRANCISCO CA 94104

Business Address
101 MONTGOMERY ST
SAN FRANCISCO CA 94104
4156277000

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, 1994   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.)

101 Montgomery Street, San Francisco, CA 94104
(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.

57,114,179 shares of $.01 par value Common Stock
Outstanding on May 9, 1994

THE CHARLES SCHWAB CORPORATION

Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 1994

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Part 1 - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements

THE CHARLES SCHWAB CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF INCOME
(In thousands, except per share amounts)
(Unaudited)

<TABLE>
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	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
Revenues		
Commissions	$160,985	$143,450
Principal transactions	50,289	40,481
Interest revenue, net of interest expense of $35,230 in 1994 and $33,652 in 1993	35,862	26,076
Mutual fund service fees	33,768	20,578
Other	7,001	5,731
Total	287,905	236,316
Expenses Excluding Interest		
Compensation and benefits	121,020	95,394

Communications	28,139	22,058
Occupancy and equipment	20,961	16,955
Depreciation and amortization	12,512	9,473
Commissions, clearance and floor brokerage	12,526	10,722
Advertising and market development	11,796	9,383
Professional services	5,566	2,811
Other	11,841	8,129
Total	224,361	174,925
Income before taxes on income	63,544	61,391
Taxes on income	25,354	25,999
Net Income	$ 38,190	$ 35,392
Weighted average number of common and common equivalent shares outstanding	58,803	58,984
Earnings per Common Equivalent Share	$ .65	$ .60
Dividends Declared per Common Share	$ .07	$ .04

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands, except share data)

<TABLE>
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<S>	March 31, 1994 (Unaudited) <C>	December 31, 1993 <C>
Assets		
Cash and equivalents (including resale agreements of $301,960 in 1994 and $120,000 in 1993)	$ 331,752	$ 279,828
Cash and investments required to be segregated under Federal or other regulations (including resale agreements of $3,792,126 in 1994 and $3,267,440 in 1993)	4,207,674	3,676,319
Receivable from brokers, dealers and clearing organizations	75,767	71,616
Receivable from customers (less allowance for doubtful accounts of $2,491 in 1994 and $2,229 in 1993)	2,633,550	2,553,255
Equipment, office facilities and property (less accumulated depreciation and amortization of $152,132 in 1994 and $143,339 in 1993)	142,872	136,440
Customer lists (less accumulated amortization of $132,394 in 1994 and $130,434 in 1993)	35,154	37,114
Other assets	123,495	141,945
Total	$7,550,264	$6,896,517

Liabilities and Stockholders' Equity		
Drafts payable	$ 118,085	$ 123,384
Payable to brokers, dealers and clearing organizations	328,422	303,981
Payable to customers	6,337,519	5,745,783
Accrued expenses	187,447	158,866
Long-term and subordinated borrowings	186,931	185,330
Total liabilities	7,158,404	6,517,344
Stockholders' equity:		
Preferred stock--10,000,000 shares authorized; $.01 par value per share; none issued		
Common stock--200,000,000 shares authorized; $.01 par value per share; 59,486,680 shares in 1994 and 1993	595	595
Additional paid-in capital	161,339	161,052
Retained earnings	283,726	253,692
Treasury stock--2,257,437 shares in 1994 and 1,649,478 shares in 1993, at cost	(40,793)	(23,153)
Note receivable from Profit Sharing Plan	(1,467)	(13,013)
Unearned ESOP Shares	(11,540)	
Stockholders' equity	391,860	379,173
Total	$7,550,264	$6,896,517

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

<TABLE>
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	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
Cash flows from operating activities		
Net income	$ 38,190	$ 35,392
Noncash items included in net income:		
Depreciation and amortization	12,512	9,473
Deferred income taxes	7,254	(922)
Other	(137)	106
Change in accrued expenses	25,782	30,761
Change in other assets	10,457	5,010
Net cash provided before change in customer-related balances	94,058	79,820
Change in customer-related balances:		
Payable to customers	591,736	41,558
Receivable from customers	(80,557)	(136,460)

Drafts payable	(5,299)	(10,066)
Payable to brokers, dealers and clearing organizations	24,441	30,057
Receivable from brokers, dealers and clearing organizations	(4,151)	(5,143)
Cash and investments required to be segregated under Federal or other regulations	(531,355)	64,775
Net change in customer-related balances	(5,185)	(15,279)
Net cash provided by operating activities	88,873	64,541
Cash flows from investing activities		
Purchase of equipment, office facilities and property - net	(14,803)	(12,821)
Net cash used by investing activities	(14,803)	(12,821)
Cash flows from financing activities		
Purchase of treasury stock	(19,031)	
Dividends paid	(4,046)	(2,298)
Repayment of long-term and subordinated borrowings	(242)	(532)
Other	1,173	369
Net cash used by financing activities	(22,146)	(2,461)
Increase in cash and equivalents	51,924	49,259
Cash and equivalents at beginning of period	279,828	204,290
Cash and equivalents at end of period	$ 331,752	$ 253,549

</TABLE>

See Notes to Condensed Consolidated Financial Statements.

THE CHARLES SCHWAB CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include The Charles Schwab Corporation (CSC) and its subsidiaries (collectively the Company), including Charles Schwab & Co., Inc. (Schwab) and Mayer & Schweitzer, Inc. (M&S). 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 generally accepted accounting principles. All adjustments were of a normal recurring nature. 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 1993 Annual Report to Stockholders which are incorporated by reference in the Company's 1993 Annual Report on Form 10-K.

Revenues are presented net of interest expense. Certain 1993 revenues and expenses have been reclassified to conform to the 1994 presentation.

Stock Repurchases

During the first three months of 1994, the Company repurchased and recorded as treasury stock a total of 700,000 shares of its common stock for $19 million.

Employee Benefit Plans

Effective January 1, 1994, the Company adopted Statement of Position 93-6 -- Employers' Accounting for Employee Stock Ownership Plans (the Statement). The Statement requires income statement recognition of the fair value of common stock released for allocation to employees through an Employee Stock Ownership Plan (ESOP). As shares are released for allocation to employees, the shares become outstanding for earnings per share computations. Previously, the accounting rules provided for the cost basis of shares released for allocation through ESOP plans to be recognized as expense and all ESOP shares to be outstanding for earnings per share computations. Under the "grandfather" provisions of the new Statement, the Company will not apply the Statement to shares purchased by the ESOP prior to December 31, 1992. The adoption of this Statement did not have a material impact on the Company's financial position, results of operations or earnings per share.

Contingent Liabilities

In January 1992, the Company filed a petition in U.S. Tax Court refuting a claim for additional Federal income tax asserted by the Internal Revenue Service (IRS) in December 1991. The asserted additional tax of $28 million, excluding interest, arises from the IRS' audit of the tax periods ended March 31, 1988 and December 31, 1988. Substantially all the asserted additional tax relates to deductions claimed by the Company for depreciation and amortization of tangible and intangible assets received in the Company's 1987 acquisition of Schwab. The contested issues extend to the Company's taxable years ended December 31, 1989 through 1993.

Of the $28 million additional tax asserted by the IRS against the Company, approximately $11 million relates to deductions derived from the amortization of customer lists. In April 1993, the U.S. Supreme Court ruled in Newark Morning Ledger Co. v. U.S. that in appropriate circumstances a taxpayer may amortize the cost of certain intangible assets (such as customer lists) over the useful life of such assets. While the Supreme Court's decision in Newark Morning Ledger confirms the Company's ability to amortize for tax purposes certain of its intangible assets, issues involving the valuation of these intangible assets remain unresolved in the Company's case with the IRS.

Management believes that these matters will be resolved without a material adverse effect on the Company's financial position.

In the normal course of its margin lending activities, Schwab is contingently liable to the Options Clearing Corporation for the margin requirement of customer margin securities transactions. Such margin requirement is secured by a pledge of customers' margin securities. This contingent liability was $75 million at March 31, 1994.

Regulatory Requirements

Schwab and M&S are subject to the SEC's Uniform Net Capital Rule and each computes net capital under the alternative method permitted by this Rule, which requires the maintenance of minimum net capital, as defined, of the greater of 2% of aggregate debit balances arising from customer 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 M&S 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, 1994, Schwab's net capital was $283 million (10.4% of aggregate debit balances), which was $229 million in excess of its minimum required net capital and $147 million in excess of 5% of aggregate debit balances. At March 31, 1994, M&S' net capital was $14 million (214% of aggregate debit balances), which was $13 million in excess of its minimum required net capital.

In accordance with the requirements of SEC Rule 15c3-3, Schwab had a portion of its cash and investments segregated for the exclusive benefit of customers at March 31, 1994. Under Rule 15c3-3, M&S had no cash reserve requirement at March 31, 1994.

Cash Flow Information

Certain investing and financing activities of the Company affect its financial position but do not affect cash flows. The following table summarizes those transactions (in thousands):

	Three Months Ended March 31, 1994	Three Months Ended March 31, 1993
Dividends declared, not yet paid	$4,006	$2,873
Equipment, office facilities and property financed	$1,843	$1,490
Common stock issued to Profit Sharing Plan for a note receivable		$15,000

Certain additional information regarding the cash flows of the Company follows (in thousands):

	Three Months Ended March 31, 1994	Three Months Ended March 31, 1993
Income taxes paid	$ 462	$ 8,173
Interest paid:		
Customers	$30,857	$29,274
Long-term and subordinated borrowings	4,740	6,196
Other	71	879
Total interest paid	$35,668	$36,349

Subsequent Event

From April 1, 1994 through May 9, 1994, the Company repurchased and recorded as treasury stock a total of 250,000 shares of its common stock for $7 million.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Charles Schwab Corporation (CSC) and its subsidiaries (collectively referred to as the Company) provide brokerage and related investment services to 2.6 million active (a) investors, whose assets entrusted to the Company totaled $100.4 billion at March 31, 1994. With a network of 200 branch offices, the Company's principal subsidiary, Charles Schwab & Co., Inc. (Schwab), is physically represented in 46 states and in the United Kingdom. Mayer &

Schweitzer, Inc. (M&S), a market maker in Nasdaq securities, provides trade execution services to institutional clients and broker-dealers.

The Company's business, like that of other securities brokerage firms, is directly affected by fluctuations in volumes and price levels in securities markets, which are in turn affected by many national and international economic and political factors that cannot be predicted. Transaction-based revenues, primarily commission and principal transaction revenues, represent the majority of the Company's revenues. In the short term, most of the Company's expenses do not vary directly with fluctuations in securities trading volume and do not increase or decrease quickly, which could result in the Company experiencing increased profitability with rapid increases in revenue, or reduced profitability (or losses) in the event of a material reduction in revenues.

Due to the factors discussed above, the results of any interim period are not necessarily indicative of results for a full year, and it is not unusual for the Company to experience significant variations in quarterly revenue growth. In addition, these factors may subject the Company's future earnings and common stock price to significant volatility.

Three Months Ended March 31, 1994 Compared To Three Months Ended March 31, 1993

Summary

Net income for the first quarter of 1994 totaled $38 million or $.65 per share compared with net income of $35 million or $.60 per share for the first quarter of 1993.

First quarter 1994 revenues were $288 million, up 22% from $236 million for the first quarter of 1993, primarily due to increases in all major revenue categories. Commission revenues increased 12% and principal transaction revenues increased 24% due to higher trading volume. Mutual fund service fees increased 64% due to growth in fund balances.

Assets in customer accounts totaled $100.4 billion at March 31, 1994, $27.4 billion, or 38%, more than a year ago primarily resulting from increases in customer assets in Schwab's Mutual Fund Marketplace (registered trademark) of $12.0 billion and increases in customers' equity securities of $8.5 billion. Total customer assets at March 31, 1994 included $22.8 billion in cash and money market mutual funds compared to $16.6 billion a year earlier. This growth in customer cash and money market balances contributed to increased net interest revenue and mutual fund service fees.

Total operating expenses excluding interest during the first quarter of 1994 were $224 million, up 28% from the first quarter of 1993. The higher expenses primarily related to additional staff and office facilities to support the Company's expansion and to higher volume-related expenses such as communications expense and commissions, clearance and floor brokerage expense. During the first quarter of 1994, the Company opened a new customer telephone service center, two new branch offices and added 150 employees. A decline in the Company's effective income tax expense rate

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

from the first quarter of 1993 had a positive impact on net income for the first quarter of 1994.

The after-tax profit margin for the first quarter of 1994 was 13%, down from 15% for the first quarter of 1993. The higher profit margin in the first quarter of 1993 was primarily due to low levels of staff relative to trading volume experienced. During periods where actual customer trading activity exceeds Company expectations, such as that experienced during the first quarter of 1993, short-term profit margins are temporarily raised. Such higher short-term profit margins are not sustained over the long term because staffing is adjusted to levels consistent with customer trading activity and the Company's service quality standards. Similarly, if customer trading activity is below Company expectations, short-term profit margins will decline temporarily until staffing is adjusted to appropriate levels.

The annualized return on stockholders' equity for the first quarter of 1994 was 36%, down from 44% in the first quarter of 1993, reflecting the Company's higher equity base in 1994's first quarter.

Commissions
- - -----------

Schwab executes commission transactions for customers on an agency basis. Commission revenues totaled $161 million for the first quarter of 1994, up 12% from the first quarter of 1993. Retail agency commissions, which include commissions relating to retail customer accounts handled by financial advisors, constitute approximately 95% of total commissions. Remaining commissions represent business done with institutional customers. Commissions earned on retail agency trades totaled $155 million on an average daily agency trade level of 33,300 trades in the first quarter of 1994, compared with commission revenue of $139 million on an average daily agency trade level of 29,300 for the comparable period in 1993. The following table shows a comparison of certain factors that influence retail commission revenue:

<TABLE>
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	Three Months Ended March 31, 1994	1993	Percent Change
<S>	<C>	<C>	<C>
Number of retail customer accounts that traded during the quarter (in thousands)	643	555	16
Average number of retail agency transactions per account that traded	3.27	3.27	---
Total number of retail agency transactions (in thousands)	2,098	1,815	16
Average commission per retail agency transaction	$73.85	$76.56	(4)
Total retail commission revenues (in millions)	$ 155	$ 139	12

</TABLE>

Note: The above table excludes customer transactions in Schwab's Mutual Fund OneSource (trademark) service.

The total number of retail agency transactions executed by Schwab increased 16% from the first quarter of 1993 as Schwab's customer base continued to grow. Schwab added 234,000 new customer accounts during the first quarter of 1994, compared to 183,000 new accounts during the first quarter of 1993. The number of total active customer accounts increased 24% from the year-ago level to 2.6 million at March 31, 1994.

Average commission per retail agency trade has declined from the year-ago level as the proportion of trades in lower commission per trade products, such as mutual funds, has increased. This is primarily the result of Schwab's success in attracting customer mutual fund business, as well as strong price competition, particularly with respect to customer equity securities transactions, which yield a higher average commission per trade. Management believes that such price competition will, in the short term, preclude general price increases across its product lines. In addition, Schwab recently expanded its special services program offered to customers that meet certain annual thresholds of trading activity. The expansion of this program, which includes discounts from Schwab's standard retail

commission rates, is intended to attract customers that trade frequently.

Principal Transactions
- - ----------------------

During the first quarter of 1994, principal transaction revenues increased $10 million, or 24%, from the comparable period in 1993 to $50 million, primarily due to an increase in trading volume handled by M&S. As a market maker in Nasdaq securities, M&S generally executes customer orders as principal.

Factors that influence revenues from principal transactions include the volume of orders and shares executed, and market price volatility. M&S processes substantially all Nasdaq security trades originated by the customers of Schwab.

Interest Revenue, Net of Interest Expense

Interest revenue net of interest expense increased 38% to $36 million from the prior year's first quarter as shown in the following table (in millions):

	Three Months Ended March 31, 1994	1993
Interest Revenue		
Investments, customer-related	$31	$29
Margin loans to customers	38	29
Other	2	2
Total	71	60
Interest Expense		
Customer cash balances	31	29
Long-term and subordinated borrowings	3	3
Other	1	2
Total	35	34
Interest Revenue, Net of Interest Expense	$36	$26

Customer-related average daily balances, interest rates, and average net interest margin for the first quarters of 1994 and 1993 are summarized in the following table (dollars in millions):

	Three Months Ended March 31, 1994	1993
Earning Assets (customer-related):		
Investments:		
Average balance outstanding	$3,861	$3,487
Average interest rate	3.30%	3.38%
Margin loans to customers:		
Average balance outstanding	$2,601	$1,975
Average interest rate	5.96%	6.00%
Average yield on earning assets	4.37%	4.33%
Funding Sources (customer-related and other):		
Interest-bearing customer cash balances:		
Average balance outstanding	$5,229	$4,574
Average interest rate	2.40%	2.59%
Other interest-bearing sources:		
Average balance outstanding	$ 353	$ 242
Average interest rate	3.03%	4.64%
Average noninterest-bearing portion	$ 880	$ 646
Average interest rate on funding sources	2.11%	2.38%
Summary:		

Average yield on earning assets	4.37%	4.33%
Average interest rate on funding sources	2.11%	2.38%
Average net interest margin	2.26%	1.95%

</TABLE>

Interest revenue from customer-related investments increased $2 million due to an 11% increase in the average balance outstanding, partially offset by an eight basis point decline in the average rate earned on such investments. Despite a four basis point decline in the average rate earned on margin loans to customers, interest earned on such balances increased $9 million as average margin balances increased 32%. Interest expense on customer cash balances increased by $2 million due to a 14% increase in average balances outstanding, partially offset by a 19 basis point decline in interest rates paid on these balances.

The average net interest margin pertaining to customer-related earning assets and related funding sources increased 31 basis points over that of 1993's first quarter. This is primarily due to sharper declines in interest rates with respect to funding sources compared to interest rate declines

on margin loans to customers and investments. Margin loans to customers, which carry a higher average interest rate than investments, represented a higher proportion of total earning assets during the first quarter of 1994 (40%), compared to the first quarter of 1993 (36%). This relationship also increased the average net interest margin.

Mutual Fund Service Fees

Mutual fund service fees increased $13 million, or 64%, to $34 million in the first quarter of 1994 from the comparable period in 1993 primarily due to growth in customer assets. Most of these fees are earned for services provided by subsidiaries of the Company to proprietary money market mutual funds. Fees earned for providing record keeping and shareholder services relating to customer assets purchased through Schwab's no-transaction-fee Mutual Fund OneSource (trademark) service also contributed to the increase.

Schwab's proprietary funds, collectively referred to as the SchwabFunds (registered trademark), include money market funds, bond funds and equity index funds. Customer assets invested in the SchwabFunds averaged $16.8 billion during the first quarter of 1994 compared to $12.0 billion during the first quarter of 1993.

During the first quarter of 1994, mutual fund trades placed through the Mutual Fund OneSource service averaged 15,300 per day, including 1,000 trades per day in SchwabFunds. Since trades handled through the Mutual Fund OneSource service do not generate commission revenue, they are not included in agency trade totals. Customer mutual fund assets purchased through the Mutual Fund OneSource service, excluding SchwabFunds, totaled $9.5 billion at March 31, 1994, up 217% from a year ago.

To help attract and retain customer assets in a highly competitive environment, the Company previously agreed to absorb all or part of the operating expenses of many of the SchwabFunds during their first months of operations and waive certain fees. In certain cases, the Company continues to waive fees and absorb expenses beyond the original agreement. Although these actions do not ensure that fund balances will continue to grow at historic rates, management believes the long-term benefits derived from the growth in fund balances will outweigh the unfavorable impact on current earnings caused by these actions.

Expenses Excluding Interest

Total operating expenses excluding interest for the first quarter of 1994 were $224 million, 28% over the first quarter of 1993. Compensation and benefits expense for the first quarter of 1994 increased $26 million, or 27%, to $121 million as additional employees were hired in response to the growth in Schwab's active customer base. Employees, including full-time, part-time, and temporary employees and persons employed on a contract basis, totaled approximately 6,700 at March 31, 1994 compared to 4,900 at March 31, 1993.

Communications expense increased $6 million, or 28%, to $28 million from the prior year's first quarter primarily due to higher postage and printing costs reflecting increased customer account openings, servicing activity and promotional mailings. Higher trading and customer call volumes contributed to higher telephone, financial news and securities quotation services expenses.

Occupancy and equipment expense increased $4 million, or 24%, to $21 million from the prior year's first quarter primarily due to increased rental and maintenance costs resulting from branch and customer telephone service center expansion and to additional equipment rental and software costs.

Depreciation and amortization expense increased $3 million, or 32%, to $13 million from the prior year's first quarter as newly acquired data processing related assets and leasehold improvements increased the Company's depreciable fixed asset base from the year-ago period.

Commissions, clearance and floor brokerage expense increased $2 million, or 17%, to

$13 million from the prior year's first quarter due primarily to an increase in trading volume handled by M&S.

Advertising and market development expense increased $2 million, or 26%, to $12 million from the prior year's first quarter as the Company increased spending on network and cable television and radio advertising.

Professional services expense increased $3 million, or 98%, to $6 million from the prior year's first quarter due primarily to increases in consulting fees relating to various company development projects and to an increase in legal expenses.

The Company currently expects it will need less customer-service capacity than that utilized during the first quarter of 1994. Accordingly, the Company has recently initiated steps to reduce staffing-related and other expenses to levels consistent with lower expected trading volumes.

Income Taxes
- - ------------

The Company's effective income tax rate for the first three months of 1994 was 39.9% compared to 42.4% for the comparable period in 1993. This decline in the effective rate is primarily due to changes in the Company's estimate of the anticipated tax effects of the amortization of certain intangible assets (see discussion of the Supreme Court's April 1993 ruling in Newark Morning Ledger below).

In January 1992, the Company filed a petition in U.S. Tax Court refuting a claim for additional Federal income tax asserted by the Internal Revenue Service (IRS) in December 1991. The asserted additional tax of $28 million, excluding interest, arises from the IRS' audit of the tax periods ended March 31, 1988 and December 31, 1988. Substantially all the asserted additional tax relates to the deductions claimed by the Company for depreciation and amortization of tangible and intangible assets received in the Company's 1987 acquisition of Schwab. The issues being contested in the Tax Court by the Company with respect to the periods audited by the IRS extend to the Company's tax years ended December 31, 1989 through 1993.

Of the $28 million additional tax asserted by the IRS against the Company, approximately $11 million relates to deductions derived from the amortization of customer lists. In April 1993, the U. S. Supreme Court ruled in Newark Morning Ledger Co. v. U.S. that in appropriate circumstances a taxpayer may amortize the cost of certain intangible assets (such as customer lists) over the useful life of such assets. While the Supreme Court's decision in Newark Morning Ledger confirms the Company's ability to amortize for tax purposes certain of its intangible assets, issues involving the valuation of these intangible assets remain unresolved in the Company's case with the IRS.

Management believes that these matters will be resolved without a material adverse effect on the Company's financial position.

Liquidity and Capital Resources

Liquidity

Schwab

Most of Schwab's assets are liquid, consisting primarily of short-term (i.e., less than 90 days) investment-grade, interest-earning investments (a substantial portion of which are segregated for the exclusive benefit of customers pursuant to regulatory requirements) and receivables from customers and broker-dealers. Customer margin loans are demand loan obligations secured by readily marketable securities. Receivables from and payables to other brokers, dealers and clearing organizations primarily represent current open transactions, which usually settle or can be closed out within a few days.

Liquidity needs relating to customer trading and margin borrowing activities are met primarily through cash balances in customer accounts, which totaled $6.3 billion at March 31, 1994, up 10% from the December 31, 1993 level of $5.7 billion.

Earnings from Schwab's operations are the primary source of liquidity for capital expenditures and investments in new services, marketing and technology. Management believes that customer cash balances and operating earnings will continue to be the primary sources of liquidity for Schwab in the future.

To manage Schwab's regulatory capital position, CSC provides Schwab with a $180 million subordinated revolving credit facility maturing in September 1995, of which $108 million was outstanding at March 31, 1994. At quarter end, Schwab also had outstanding $25 million in fixed-rate subordinated term loans from CSC maturing in 1995 and 1996. For use in its brokerage operations, Schwab also maintains uncommitted bank credit lines totaling $415 million, of which $335 million is available on an unsecured basis. Schwab used such borrowings for 11 days during the first three months of 1994, with the daily amounts borrowed averaging $35 million. These lines were unused at March 31, 1994.

M&S

M&S' liquidity needs are generally met through earnings generated by its operations. Most of M&S' assets are liquid, consisting primarily of cash and equivalents, receivables from brokers, dealers and clearing organizations and marketable securities. M&S may borrow up to $10 million under a subordinated lending arrangement with CSC. Borrowings under this arrangement qualify as regulatory capital for M&S. This credit facility has never been used.

The Charles Schwab Corporation

CSC's liquidity needs are generally met through cash generated by its subsidiaries. Schwab and M&S are the principal sources of this liquidity and are subject to regulatory requirements that are intended to ensure the general financial soundness and liquidity of broker-dealers. These regulations would prohibit Schwab and M&S from repaying subordinated borrowings to CSC, paying cash dividends, or making any unsecured advances or loans to CSC or employees if such payment would result in net capital for such subsidiary of less than 5% of its aggregate debit balances or less than 120% of its minimum dollar amount requirement of $1 million. At March 31, 1994, Schwab had $283 million of net capital (10.4% of aggregate debit balances), which was $229 million in excess of its minimum required net capital. At March 31, 1994, M&S had $14 million of net capital (214% of aggregate debit balances), which was $13 million in excess of its minimum required net capital. Management believes that funds generated by Schwab's and M&S' operations will continue to be the primary funding source in meeting CSC's liquidity needs and maintaining Schwab's and M&S' net capital.

In addition to liquidity needed by the broker-dealer subsidiaries, CSC has individual liquidity needs that arise from its long-term debt, which includes $150 million of its Senior Medium-Term Notes, Series A (Medium-Term Notes). The Medium-Term Notes have maturities ranging from three to ten years and fixed interest rates ranging from 4.9% to 6.3% with interest payable semiannually.

CSC has a $35 million Senior Term Loan due in March 1995. An interest rate exchange arrangement has been used to convert the loan's variable interest rate to a fixed rate of 6.9%. The loan contains covenants, among others, that require CSC to maintain minimum levels of stockholders' equity, and require Schwab and M&S to maintain minimum levels of net capital as defined.

In June 1993, CSC renewed its $225 million committed unsecured credit facility with a group of twelve banks. The funds are available for general corporate purposes and CSC pays a commitment fee on the unused balance. The terms of this credit facility require CSC to maintain minimum levels of stockholders' equity and Schwab to maintain minimum levels of net capital as defined. This credit facility has never been used.

On April 12, 1994, the SEC declared effective

a Registration Statement filed by CSC covering the issuance of up to $100 million aggregate principal amount of debt securities, which may be issued by

CSC from time to time as senior or senior subordinated debt securities, and may carry fixed or variable interest rates. The net proceeds of the sale of the debt securities will be used for general corporate purposes.

On April 14, 1994, a Prospectus Supplement covering the issuance of up to $100 million in Senior or Senior Subordinated Medium-Term Notes, Series A, pursuant to the Registration Statement was filed with the SEC. Currently, there are no securities issued under this Prospectus Supplement.

Cash Flows

Cash provided by operating activities was $89 million for the first three months of 1994, up 38% from $65 million for the first three months of 1993. During 1994's first quarter period, the Company invested $15 million in equipment, office facilities and property as it continued to expand its branch office network and customer telephone service center facilities and improve its data processing and telecommunications systems. The Company opened its fourth customer telephone service center in January 1994.

During the first three months of 1994, the Company repurchased and recorded as treasury stock a total of 700,000 shares of its common stock for $19 million. From April 1, 1994, through May 9, 1994, the Company repurchased an additional 250,000 shares of its common stock for $7 million. Currently, the Company has authorization from its Board of Directors to repurchase a total of 1,325,000 additional shares of its common stock.

In January 1994, the Board of Directors announced an increase in the quarterly cash dividend from $.05 per share to $.07 per share. During the first three months of 1994, the Company paid common stock cash dividends totaling $4 million, up from $2 million paid during the first three months of 1993.

Capital Adequacy

The Company's stockholders' equity at March 31, 1994 totaled $392 million. In addition to its equity, the Company had long-term borrowings of $185 million that bear interest at a weighted average rate of 6.0%. These borrowings, together with the Company's equity, provided total financial capital of $577 million at March 31, 1994.

The Company monitors its financial leverage and the adequacy of its capital base relative to the level and composition of its assets using various financial measures. One of these measures is the ratio of total assets to total stockholders' equity. At March 31, 1994, the ratio of total assets to total stockholders' equity was 19 to 1 compared to a ratio of 18 to 1 at December 31, 1993. Over 90% of the Company's total assets relate to customer activity (primarily margin loans and segregated investments). Given the Company's intention of continuing to maintain an appropriate capital base as customer balances grow, management believes that the Company's present level of equity could support up to $3 billion of additional assets relating to customer activity.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Discussed in Notes to Condensed Consolidated Financial Statements under Contingent Liabilities in Part I, Item 1, and under Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations, under Income Taxes, and incorporated herein by reference.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

In March 1994, David S. Pottruck, President of the Company, was named to the additional positions of Chief Operating Officer of the Company and member of the Company's Board of Directors.

Item 6. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K:

On April 14, 1994, the Registrant filed a Current Report on Form 8-K relating to up to $100 million aggregate principal amount of debt securities issuable by the Registrant pursuant to Registration Statement Number 33-50923 declared effective by the SEC on April 12, 1994. Certain exhibits relating to Medium Term Notes, Series A, issuable pursuant to the Registration Statement are contained in the Current Report.

(b) The following exhibits are filed as part of this quarterly report on Form 10-Q.

<TABLE>
<CAPTION>

Exhibit Number	Exhibit
<S>	<C>
4.2*	
11.1	Computation of Earnings per Common Equivalent Share.
12.1	Computation of Ratio of Earnings to Fixed Charges.

</TABLE>

* Neither the Registrant nor its subsidiaries are parties to any instrument with respect to long-term debt for which securities authorized thereunder exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. Copies of instruments with respect to long-term debt of lesser amounts will be provided to the SEC upon request.

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 13, 1994

A. John Gambs /s/

A. John Gambs
Executive Vice President - Finance,
and Chief Financial Officer

EXHIBIT 11.1

THE CHARLES SCHWAB CORPORATION

Computation of Earnings per Common Equivalent Share
(In thousands, except per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
Net Income	$38,190	$35,392
Shares		
Weighted average number of common shares outstanding	56,977	57,289
Common stock equivalent shares related to option plans	1,826	1,695
Weighted average number of common and common equivalent shares outstanding	58,803	58,984
Earnings per Common Equivalent Share	$ .65	$ .60

</TABLE>

EXHIBIT 12.1

THE CHARLES SCHWAB CORPORATION

Computation of Ratio of Earnings to Fixed Charges
(Dollar amounts in thousands, unaudited)

<TABLE>
<CAPTION>

	Three Months Ended March 31, 1994	1993
<S>	<C>	<C>
Earnings before income taxes	$ 63,544	$61,391
Fixed charges:		
Interest expense - customer	30,949	29,245
Interest expense - other	4,281	4,407
Interest portion of rental expense	4,031	3,664
Total fixed charges (a)	39,261	37,316
Earnings before income taxes and fixed charges (b)	$102,805	$98,707

Ratio of earnings to fixed charges (b) (divided by) (a)*	2.6	2.6
Ratio of earnings to fixed charges as adjusted**	8.6	8.6

* The ratio of earnings to fixed charges is calculated in a manner consistent with SEC requirements. For such purposes, "earnings" consist of earnings before income taxes and fixed charges. "Fixed charges" consist of interest expense incurred on payables to customers, subordinated borrowings, term debt, capitalized interest, and one-third of rental expense, which is estimated to be representative of the interest factor.

** Because interest expense incurred in connection with payables to customers is completely offset by interest revenue on related investments and margin loans, the Company considers such interest to be an operating expense. Accordingly, the ratio of earnings to fixed charges as adjusted reflects the elimination of such interest expense as a fixed charge.

</TABLE>