

SCHWAB CHARLES CORP  
Form 10-Q  
May 07, 2013  
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**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, 2013**

**Commission File Number: 1-9700**

**THE CHARLES SCHWAB CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction)

**94-3025021**  
(I.R.S. Employer Identification No.)

of incorporation or organization)

**211 Main Street, San Francisco, CA 94105**

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (415) 667-7000

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

1,279,979,406 shares of \$.01 par value Common Stock

Outstanding on April 23, 2013

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**THE CHARLES SCHWAB CORPORATION**

**Quarterly Report on Form 10-Q**

**For the Quarter Ended March 31, 2013**

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(In millions, except per share amounts)

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Net Revenues</b>		
Asset management and administration fees	\$ 552	\$ 484
Interest revenue	497	472
Interest expense	(28)	(38)
Net interest revenue	469	434
Trading revenue	223	243
Other	56	46
Provision for loan losses	(6)	
Net impairment losses on securities <sup>(1)</sup>	(4)	(18)
Total net revenues	1,290	1,189
<b>Expenses Excluding Interest</b>		
Compensation and benefits	536	465
Professional services	99	96
Occupancy and equipment	77	76
Advertising and market development	74	67
Communications	54	58
Depreciation and amortization	51	48
Other	68	66
Total expenses excluding interest	959	876
Income before taxes on income	331	313
Taxes on income	125	118
<b>Net Income</b>	<b>206</b>	<b>195</b>
Preferred stock dividends	8	
<b>Net Income Available to Common Stockholders</b>	<b>\$ 198</b>	<b>\$ 195</b>
<b>Weighted-Average Common Shares Outstanding Diluted</b>	<b>1,282</b>	<b>1,273</b>

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<b>Earnings Per Common Share</b>	<b>Basic</b>	\$ .15	\$ .15
<b>Earnings Per Common Share</b>	<b>Diluted</b>	\$ .15	\$ .15

(1) Net impairment losses on securities include total other-than-temporary impairment losses of \$0 million and \$2 million, net of \$(4) million and \$(16) million reclassified from other comprehensive income, for the three months ended March 31, 2013 and 2012, respectively. See Notes to Condensed Consolidated Financial Statements.

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**Table of Contents****THE CHARLES SCHWAB CORPORATION****Condensed Consolidated Statements of Comprehensive Income**

(In millions)

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net Income	\$ 206	\$ 195
Other comprehensive income, before tax:		
Change in net unrealized gain on securities available for sale:		
Net unrealized (loss) gain	(3)	89
Reclassification of impairment charges included in net impairment losses on securities	4	18
Other	1	
<b>Other comprehensive income, before tax</b>	<b>2</b>	<b>107</b>
Income tax effect		39
<b>Other comprehensive income, net of tax</b>	<b>2</b>	<b>68</b>
<b>Comprehensive Income</b>	<b>\$ 208</b>	<b>\$ 263</b>

*See Notes to Condensed Consolidated Financial Statements.*

**Table of Contents****THE CHARLES SCHWAB CORPORATION****Condensed Consolidated Balance Sheets**

(In millions, except per share and share amounts)

(Unaudited)

	March 31, 2013	December 31, 2012
<b>Assets</b>		
Cash and cash equivalents	\$ 6,931	\$ 12,663
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of \$18,387 at March 31, 2013 and \$19,325 at December 31, 2012)	26,897	28,469
Receivables from brokers, dealers, and clearing organizations	467	333
Receivables from brokerage clients net	12,454	13,458
Other securities owned at fair value	545	636
Securities available for sale	48,809	46,123
Securities held to maturity (fair value \$23,316 at March 31, 2013 and \$18,732 at December 31, 2012)	22,920	18,194
Loans to banking clients net	11,300	10,726
Equipment, office facilities, and property net	681	675
Goodwill	1,231	1,228
Intangible assets net	302	319
Other assets	787	813
<b>Total assets</b>	<b>\$ 133,324</b>	<b>\$ 133,637</b>
<b>Liabilities and Stockholders Equity</b>		
Deposits from banking clients	\$ 82,424	\$ 79,377
Payables to brokers, dealers, and clearing organizations	1,152	1,068
Payables to brokerage clients	36,888	40,330
Accrued expenses and other liabilities	1,453	1,641
Long-term debt	1,631	1,632
<b>Total liabilities</b>	<b>123,548</b>	<b>124,048</b>
Stockholders equity:		
Preferred stock \$.01 par value per share; aggregated liquidation preference of \$885 at both March 31, 2013 and December 31, 2012	866	865
Common stock 3 billion shares authorized; \$.01 par value per share; 1,487,543,446 shares issued	15	15
Additional paid-in capital	3,911	3,881
Retained earnings	8,674	8,554
Treasury stock, at cost 207,704,836 shares at March 31, 2013 and 210,014,305 shares at December 31, 2012	(3,990)	(4,024)
Accumulated other comprehensive income	300	298
<b>Total stockholders equity</b>	<b>9,776</b>	<b>9,589</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 133,324</b>	<b>\$ 133,637</b>

*See Notes to Condensed Consolidated Financial Statements.*





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## THE CHARLES SCHWAB CORPORATION

## Condensed Consolidated Statement of Cash Flows

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 206	\$ 195
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Provision for loan losses	6	
Net impairment losses on securities	4	18
Stock-based compensation	37	25
Depreciation and amortization	51	48
Premium amortization, net, on securities available for sale and securities held to maturity	44	52
Other	7	
Originations of loans held for sale		(335)
Proceeds from sales of loans held for sale		354
Net change in:		
Cash and investments segregated and on deposit for regulatory purposes	1,572	(871)
Receivables from brokers, dealers, and clearing organizations	(134)	(360)
Receivables from brokerage clients	1,003	(136)
Other securities owned	91	137
Other assets	(29)	22
Payables to brokers, dealers, and clearing organizations	84	170
Payables to brokerage clients	(3,442)	868
Accrued expenses and other liabilities	132	(89)
Net cash (used for) provided by operating activities	(368)	98
<b>Cash Flows from Investing Activities</b>		
Purchases of securities available for sale	(6,703)	(6,836)
Proceeds from sales of securities available for sale		250
Principal payments on securities available for sale	3,997	2,759
Purchases of securities held to maturity	(6,031)	(1,193)
Principal payments on securities held to maturity	1,279	1,308
Net (increase) decrease in loans to banking clients	(530)	34
Purchase of equipment, office facilities, and property	(49)	(42)
Other investing activities	2	
Net cash used for investing activities	(8,035)	