

*Broker-Dealer* : A regulated firm or individual acting either as an agent or a principal in securities transactions on behalf of clients. A broker acts as an intermediary, or agent, in a securities transaction. A dealer acts on its own behalf as principal when it buys and sells securities from its own portfolio and maintains inventories of securities.

*Commission* : The fee charged by a broker for purchasing or selling securities on behalf of a client.

*Derivative* : A type of financial instrument or contract whose value is derived from the performance of an underlying financial asset, index or other investment. Examples include interest rate swaps and options.

*Electronic Communications Network (ECN)* : A computerized trading network that matches clients' buy and sell limit orders. As ECN prices have become widely available to the market, ECNs have gathered a larger share of the Nasdaq market. ECNs allow for the trading of stocks after the close of business for traditional exchanges and markets.

*Independent Investment Manager* : A regulated financial professional who manages investment portfolios for investors, charging a management fee for the services rendered.

*Institutional Client* : An entity whose primary purpose is to invest its own assets or those held by it in trust for others (includes pension funds, investment companies, insurance companies and banks).

*Margin Loan* : A loan made by a broker-dealer to a client in a margin account secured by readily marketable securities. A margin account is a brokerage account that permits an investor to purchase securities on credit using securities in the account as collateral.

*Market Maker* : A dealer in the over-the-counter (OTC) market who is ready to buy a specific security into, and sell that security from, its own inventory at its own risk.

*Mutual Fund Marketplace* : Schwab's service that provides clients with the ability to invest in over 2,000 mutual funds, including Mutual Fund OneSource service funds, from a wide variety of fund companies.

*Mutual Fund OneSource* : Schwab's service that offers clients access to 1,079 no-load mutual funds from many of America's most prominent fund families. Clients purchasing or selling funds that participate in OneSource pay no commissions or fees at the time of purchase or sale.

*Net Capital* : A regulatory measurement of a broker-dealer's financial strength, calculated by reducing its capital (essentially

stockholders' equity and subordinated debt) by certain amounts. These reductions are made on an asset-by-asset basis and reflect the Securities and Exchange Commission's assessment of market, credit or operating risks associated with such assets. Net Capital is defined in the Uniform Net Capital Rule under the Securities Exchange Act of 1934, which was adopted to create consistent capital requirements and to ensure liquidity for all registered broker-dealers.

*No-Load Fund* : A mutual fund operated by an investment company that does not assess a sales charge, transaction fee or commission for purchases or sales of the fund.

*Operating Income* : An adjusted income measure used by management in evaluating the Company's financial performance. Operating income excludes non-operating revenue, restructuring and other charges, merger- and acquisition-related charges and extraordinary items.

*Over-the-Counter Market* : A market in which securities transactions are negotiated through a telephone and computer network connecting dealers and brokers. Unlike a stock exchange, there is no centralized trading floor. The OTC market includes both the Nasdaq market and certain securities, known as OTC Bulletin Board and pink sheet securities, which are not listed for trading by Nasdaq or any securities exchange.

*Principal* : A firm or individual who owns and trades securities for its own account with clients or other broker-dealers. See also Broker-Dealer.

*Proprietary Funds* : Schwab's mutual funds that are administered and managed by Charles Schwab Investment Management, Inc. (CSIM) (see SchwabFunds), and U.S. Trust-advised Excelsior Funds family of mutual funds.

*Revenue Trades* : Includes all client trades (both domestic and international) that generate either commission revenue or revenue from principal markups. Trades with institutional clients are excluded.

*SchwabFunds* : Schwab's proprietary mutual funds that are administered and managed by CSIM. These include money market funds, equity index funds, bond funds, bond and cash equivalents, and asset allocation funds.

*Specialist* : Member of a stock exchange who executes orders for one or more securities on behalf of clients or other exchange members (who pay the specialist a commission), and who is charged with helping maintain a fair and orderly market. In this second capacity, a specialist acts as a dealer, buying and selling securities to maintain a balance between supply and demand.