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C O U N S E L O R S A T L A W

April 16, 2008

Via Federal Express

Lynn Eslin
U.S. Securities and Exchange Commission
Office of Filings & Information Services
100 F Street, NE
Washington, DC 20549

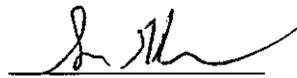
Re: Schwab Investments
File Nos. 033-37459 and 811-06200

Ms. Eslin:

On behalf of our client, Schwab Investments (the "Trust"), we have enclosed, pursuant to Section 33 of the Investment Company Act of 1940, as amended, a copy of one (1) complaint filed against Charles Schwab Investment Management, Inc. ("CSIM"), the investment adviser to the Trust; Charles Schwab & Co., Inc. ("CS&Co."), the principal underwriter of the Trust; The Charles Schwab Corporation, the parent company of CSIM and CS&Co.; and certain of the Trust's officers and trustees.

Please contact me at (215) 963-5598 with any questions.

Very truly yours,



Sean Graber

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The Division of
Investment Management

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13 Attorneys for Plaintiff

14
15 UNITED STATES DISTRICT COURT
16 NORTHERN DISTRICT OF CALIFORNIA

17
18 W. MERRILL GLASGOW, on Behalf of
19 Himself and All Others Similarly Situated,

19 Plaintiff, CV

20 vs.

21 THE CHARLES SCHWAB CORPORATION,
22 CHARLES SCHWAB & CO. INC., CHARLES
23 SCHWAB INVESTMENT MANAGEMENT,
24 INC., CHARLES R. SCHWAB, EVELYN
25 DILSAVER, RANDALL W. MERK and
26 GEORGE PEREIRA,

25 Defendants.

FILED

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RICHARD W. WEEHNG
U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

Handwritten signature and initials.

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The Division of
Investment Management

E-filing

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Case No.

08 1936

CLASS ACTION

COMPLAINT FOR VIOLATION OF
THE FEDERAL SECURITIES LAWS

JURY TRIAL DEMANDED

830337v1010715

COMPLAINT FOR VIOLATION OF THE
FEDERAL SECURITIES LAWS

1 Plaintiff W. Merrill Glasgow, by his undersigned attorneys, for his class action complaint,
2 makes the following allegations against defendants based upon an investigation conducted by and
3 under the supervision of counsel for plaintiff, which has included, among other things, review and
4 analysis of filings with the U.S. Securities and Exchange Commission ("SEC"). Allegations as to
5 plaintiff's own acts are based upon plaintiff's personal knowledge.

6 **NATURE OF THE ACTION**

7 1. Plaintiff brings this action pursuant to Rule 23 of the Federal Rules of Civil
8 Procedure on behalf of himself and all persons or entities who purchased shares of Schwab
9 YieldPlus Fund Investor Shares ("Investor Shares") (Ticker Symbol: SWYPX) or Schwab
10 YieldPlus Fund Select Shares ("Select Shares") (Ticker Symbol: SWYSX) (collectively, "the
11 Shares") during the period March 17, 2005 through March 17, 2008, inclusive (the "Class
12 Period"), against the Schwab YieldPlus Fund's ("the Fund") underwriter, investment adviser, and
13 the other defendants for violations of the disclosure requirements of the Securities Act of 1933
14 (the "1933 Act"), 15 U.S.C. § 77a, *et seq.* The Registration Statements and Prospectuses for the
15 Shares filed with the SEC issued during the Class Period contained untrue statements of material
16 facts, omitted to state other facts necessary to make the statements made not misleading, and/or
17 omitted to state material facts required to be stated therein, relating, *inter alia*, to (i) the lack of
18 true diversification of the Fund's assets and concentration in the subprime market of mortgage
19 backed and related securities, (ii) the fact that the Fund's risk profile was not "marginally higher"
20 than cash, (iii) the high vulnerability of the Fund's assets to suddenly becoming illiquid, (iv) the
21 fact that the net asset value ("NAV") of the Fund was artificially inflated, and (v) that the Fund
22 relied on the same broker-dealers, who sold the Fund's shares, to package and sell them these
23 highly complex and speculative mortgage-backed securities, and at the same time unreasonably
24 relied upon the credit ratings of rating agencies paid by their broker-dealers, through commissions
25 on the sale of assets to the Fund, to represent to the investing public that these investments meet
26 the stated investment policies and criteria of the Fund.

1 **JURISDICTION AND VENUE**

2 2. This action arises under Sections 11, 12(a)(2) and 15 of the 1933 Act, 15 U.S.C.
3 §§ 77k, 77i and 77o.

4 3. This Court has jurisdiction over the subject matter of this action pursuant to
5 28 U.S.C. §§ 1331 and 1337 and Section 22 of the 1933 Act, 15 U.S.C. § 77v.

6 4. Venue is proper in this district pursuant to 28 U.S.C. § 1391(b) because the
7 defendants maintain an office in this district, are headquartered in this district and many of the
8 acts and practices complained of herein occurred in substantial part in this district.

9 5. In connection with the acts alleged in this complaint, defendants, directly or
10 indirectly, used the means and instrumentalities of interstate commerce, including, but not limited
11 to, the mails, interstate telephone communications and the facilities of the national securities
12 markets.

13 **PARTIES**

14 6. Plaintiff W. Merrill Glasgow acquired shares of Investor Shares directly from
15 defendant Charles Schwab & Co. Inc. ("Schwab") pursuant to a Registration Statement and
16 Prospectus at issue in this complaint, as set forth in the accompanying certification attached to
17 this complaint, and has been damaged thereby.

18 7. Non-Defendant Schwab Investments (the "Trust" or "Registrant") has its
19 headquarters at 101 Montgomery Street, San Francisco, CA 94104. Schwab Investments was
20 organized as a Massachusetts business trust under Massachusetts law on October 16, 1990, and is
21 registered under the Investment Company Act of 1940, as amended (the "1940 Act").

22 8. The Fund is one of a series of Schwab Investments. The Fund is a member of The
23 Charles Schwab Family of Funds. Each of the funds in the trust is advised by defendant Charles
24 Schwab Investment Management, Inc., and employs defendant Schwab as principal underwriter,
25 transfer agent and shareholder services agent. As a result, the Fund is under the control of the
26 Registrant.

1 9. Defendant The Charles Schwab Corporation ("Schwab Corp.") is headquartered at
2 101 Montgomery Street, San Francisco, CA 94104. Schwab Corp. is the parent company of
3 Schwab and Schwab Investments. Schwab Corp. is a controlling person of its wholly-owned
4 subsidiaries, defendants Schwab and Charles Schwab Investment, Inc.

5 10. Defendant Schwab is headquartered at 101 Montgomery Street, San Francisco, CA
6 94104. Schwab is the parent company of Schwab Investments. Pursuant to a distribution
7 agreement, Schwab was, during the Class Period, the principal underwriter for shares of the Fund
8 and is the Trust's agent for the purpose of the continuous offering of the Fund's shares.

9 11. Defendant Charles Schwab Investment Management, Inc. ("Investment Advisor",
10 "Schwab Management" or "CSIM") has its headquarters at 101 Montgomery Street, San
11 Francisco, CA 94104. Schwab Management is the investment advisor to the Fund. As the
12 investment advisor, Schwab Management oversees the management and administration of the
13 Fund. As compensation for these services, Schwab Management receives a management fee from
14 the Fund.

15 12. The Investment Adviser and Schwab are both wholly-owned subsidiaries of The
16 Charles Schwab Corporation. Charles R. Schwab ("Charles Schwab") is the founder, Chairman,
17 Chief Executive Officer and Director of The Charles Schwab Corporation. Due to his ownership
18 of and interests in The Charles Schwab Corporation, Charles Schwab is a controlling person of
19 Schwab Management and Schwab.

20 13. Defendant Charles Schwab is Chairman and Trustee of Schwab Investments and
21 the Fund. Charles Schwab signed or authorized the signing of the Registration Statements at
22 issue in this action.

23 14. Defendant Evelyn Dilsaver was President and Chief Executive Officer of the Fund
24 and signed each Registration Statement through November 15, 2006.

25 15. Defendant Randall W. Merk was a Trustee and then President and Chief Executive
26 Officer of the Fund after defendant Dilsaver left Schwab. Defendant Merk signed each
27 Registration Statement beginning with the November 15, 2005 Registration Statement.

1 16. Defendant George Pereira has been Chief Financial Officer and Treasurer of the
2 Fund and signed each Registration Statement beginning with the November 15, 2005 Registration
3 Statement.

4 17. The Defendants identified in paragraphs 13-16 are collectively referred to herein
5 as the "Individual Defendants."

6 **THE FALSE AND MISLEADING REGISTRATION STATEMENT**
7 **AND PROSPECTUS**

8 18. This is a class action on behalf of all persons or entities who acquired Schwab
9 YieldPlus Funds Investor Shares or Schwab YieldPlus Funds Select Shares during the period
10 March 17, 2005 through March 17, 2008, inclusive, pursuant to the Fund's untrue or misleading
11 Registration Statements and Prospectuses issued in connection with the continued offerings of the
12 Fund's shares, seeking to pursue remedies under the 1933 Act.

13 19. Ultra-short bond funds were marketed to investors as a higher-yielding alternative
14 to money-market funds, which offer a combination of safety and liquidity. Ultra-short bonds buy
15 short-term debt, including subprime debt, and have fewer investment restrictions than money-
16 market funds.

17 20. The Fund is a mutual fund advertised by defendants as ultra-short bond funds
18 which were a safe alternative to money market funds that preserve principal while being
19 "designed with your income needs in mind."

20 21. On November 15, 2004, defendants began offering shares of the Fund pursuant to
21 the Registration Statement and Prospectus dated that same day, along with associated sales
22 materials and advertisements, including web pages which also constitute a prospectus under the
23 federal securities laws. Defendants continuously filed nearly identical registration statements and
24 prospectuses throughout the Class Period, and continued to offer and sell the Fund's newly-issued
25 securities through notices, circulars, advertisements, letters or communications, written or by
26 radio or television, including over the Internet. These documents included representations that:

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- a. The Fund provided “higher yields on your cash with only marginally higher risk, [and therefore] could be a smart alternative”;
- b. The Fund was an “ultra short-term bond fund, designed to offer high current income with minimal changes in share price”;
- c. The Fund “invests primarily in investment-grade bonds”;
- d. The Fund offers “the potential for higher yields than a money market fund”;
- e. The Fund seeks “to keep the average duration of its portfolio at one year or less”;
- f. The Fund’s objective was “to seek high current income with minimal changes in share price”;
- g. The Fund “invests in a large, well-diversified portfolio of taxable bonds....”;
- h. “To minimize changes in share price or NAV, the Fund seeks to maintain an average portfolio duration of one-year or less”; and
- i. “The [Fund was being] actively managed by a seasoned team of taxable bond portfolio managers who are supported by a team of credit and market analysts. The team use a disciplined approach”.

22. As a result of defendants’ false and misleading statements, billions of dollars were invested in the Fund at prices set by defendants which reported a NAV of approximately \$9.70 per share throughout the Class Period. The Fund’s assets grew in 2006 and 2007 to above \$10 billion by June 2007.

23. Then in July of 2007, defendants suddenly began lowering the stated value of the share price for the Fund. The NAV of the shares plummeted to as low as \$7.95 per share on March 17, 2008, or a loss of over 18% since June 2007, and almost 11% for the year. By comparison, the average loss for this investment category has been 1.12%.

1 24. In conjunction with this revaluation, defendants have blamed market conditions.
2 Most recently, on March 10, 2008, defendants issued a letter to investors stating: "Even though
3 YieldPlus is a highly-diversified fund, it reflects the declines we have seen in non-Treasury
4 securities, including mortgage-backed and asset-backed securities, where reduced demand has
5 been the primary driver of decreasing valuations."

6 25. The Registration Statements and Prospectuses were materially false and
7 misleading because they omitted the following material facts necessary to render them not false
8 and misleading:

- 9 a. The Fund was and is not well-diversified and were concentrated in a single
10 risky industry or market segment — in reality, over 50% of the Fund's
11 assets were invested in mortgage industry debt and related derivative
12 securities, and that percentage grew as defendants abandoned the
13 objectives of the Fund in pursuit of higher yields;
- 14 b. A material portion of all the bonds acquired by the Fund were issued by the
15 Fund's top 10 broker-dealers, who sold the Fund's shares;
- 16 c. There exists no primary market for most of the debt instrument acquired by
17 the Fund, and in fact, the only market was, for many, the issuers
18 themselves;
- 19 d. The duration of a vast majority of the debt instruments acquired by the
20 Fund is greater than 2 years, with a majority of the debt not having
21 publicly-available durations;
- 22 e. The Fund's credit and market analysts did not have any real expertise in
23 valuing the mortgage-backed securities they purchased, or assessing the
24 risks of buying and holding those securities;
- 25 f. The Fund unreasonably relied on the ratings by agencies who were paid by
26 the Fund's broker-dealers;
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1 g. The mortgage-backed securities acquired by the Fund were highly
2 vulnerable to becoming illiquid; and

3 h. The NAV of the Fund was artificially inflated in price.

4 **CLASS ACTION ALLEGATIONS**

5 26. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
6 Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons or entities who purchased
7 Investor Shares or Select Shares traceable to the Fund's shares false and misleading Registration
8 Statements during the Class Period and who were damaged thereby (the "Class"). Excluded from
9 the Class are defendants, the officers and directors of the defendants, the members of the
10 immediate families of the Individual Defendants, their legal representatives, heirs, successors or
11 assigns and any entity in which defendants have or had a controlling interest.

12 27. The members of the Class are so numerous that joinder of all members is
13 impracticable. While the exact number of Class members is unknown to plaintiff at this time and
14 can only be ascertained through appropriate discovery, plaintiff believes that there are hundreds
15 of members in the proposed Class. Record owners and other members of the Class may be
16 identified from records maintained by Registrant or its transfer agent and may be notified of the
17 pendency of this action by mail, using the form of notice similar to that customarily used in
18 securities class actions.

19 28. Plaintiff's claims are typical of the claims of the members of the Class as all
20 members of the Class are similarly affected by defendants' wrongful conduct in violation of
21 federal law that is complained of herein.

22 29. Plaintiff will fairly and adequately protect the interests of the members of the Class
23 and has retained counsel competent and experienced in class and securities litigation.

24 30. Common questions of law and fact exist as to all members of the Class and
25 predominate over any questions solely affecting individual members of the Class. Among the
26 questions of law and fact common to the Class are:
27

- 1 a. Whether the 1933 Act was violated by defendants' conduct herein alleged;
2 b. Whether statements made by defendants to the investing public in the
3 Registration Statements misrepresented material facts about the business,
4 operations and management of the Fund; and
5 c. To what extent the members of the Class have sustained damages and the
6 proper measure of damages.

7 31. A class action is superior to all other available methods for the fair and efficient
8 adjudication of this controversy since joinder of all members is impracticable. Furthermore, as
9 the damages suffered by individual Class members may be *relatively small*, the *expense and*
10 *burden of individual litigation* make it impossible for members of the Class to redress
11 *individually the wrongs done to them*. There will be no difficulty in the management of this
12 action as a class action.

13 **FIRST CLAIM FOR RELIEF**

14 **(Violations of Section 11 of the 1933 Act**

15 **Against All Defendants)**

16 32. Plaintiff repeats and incorporates each allegation contained above.

17 33. This claim for relief is brought pursuant to § 11 of the 1933 Act, 15 U.S.C. § 77k,
18 on behalf of the Class, against all defendants.

19 34. The Registration Statements for the Fund contained untrue statements of material
20 facts, omitted to state other facts necessary to make the statements made not misleading, and/or
21 omitted to state material facts required to be stated therein.

22 35. The defendants were responsible for the contents and dissemination of the
23 Registration Statement.

24 36. None of the defendants made a reasonable investigation or possessed reasonable
25 grounds for the belief that the statements contained in the Registration Statements were true and
26 not misleading and disclosed all material information required to be disclosed therein.

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sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

- C. Awarding rescissionary damages, as applicable;
- D. Awarding plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and
- E. Such other relief as deemed appropriate by the Court.

Dated: April 11, 2008

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By Marc M. Seltzer
Marc M. Seltzer
Attorneys for Plaintiff

JURY DEMAND

Pursuant to Rule 38(b) of the Federal Rules of Civil Procedure, plaintiff demands a jury trial as to all issues triable by a jury.

Dated: April 11, 2008

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By Marc M. Seltzer
Marc M. Seltzer
Attorneys for Plaintiff

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CERTIFICATION OF W. MERRILL GLASGOW
PURSUANT TO THE FEDERAL SECURITIES LAWS

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4 1. I have reviewed the complaint prepared by my counsel in this case and authorized
5 its filing.

6 2. I did not purchase the security that is the subject of the complaint at the direction
7 of plaintiff's counsel or in order to participate in any private action arising under the federal
8 securities laws.

9 3. I am willing to serve as a representative party on behalf of the Class, including
10 providing testimony at deposition and trial, if necessary.

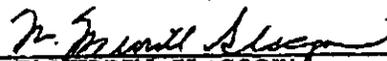
11 4. On February 13, 2007, during the proposed Class Period, I paid \$800,000 for
12 Investor Shares in the Schwab YieldPlus fund at a price of \$9.69 per share. In May 2007, I paid
13 \$390,000 for additional Investor Shares, part at \$9.69 and part at \$9.68 per share. Monthly
14 dividends were reinvested for a total investment of \$1,237,136. On December 12, 2007, I sold all
15 of these shares in the Fund at a loss of \$67,938.

16 5. I have never before served or sought to serve as a class representative in an action
17 filed under the federal securities laws.

18 6. I will not accept payment for serving as a representative party on behalf of the
19 Class beyond my ~~pro rata~~ share of any recovery, except such reasonable costs and expenses
20 directly relating to the representation of the Class as ordered or approved by the Court.

21 I declare under penalty of perjury under the laws of the United States of America that the
22 foregoing is true and correct.

23 Executed this 2nd day of April, 2008, at Houston, Texas,

24 
25 W. MERRILL GLASGOW

26
27
28 830337-1/010719
CERTIFICATION OF W. MERRILL GLASGOW
PURSUANT TO THE FEDERAL SECURITIES LAWS

END