SCHWAB CHARLES CORP
Form 10-Q
August 06, 2009
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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 June 30, 2009

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.)

211 Main Street, San Francisco, CA 94105

(Address of principal executive offices and zip code)

Registrant s telephone number, including area code: (415) 636-7000

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 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 x 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.

Large accelerated filer	x	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 x

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

1,160,852,817 shares of $.01 par value Common Stock

Outstanding on July 24, 2009

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THE CHARLES SCHWAB CORPORATION

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2009

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Part I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Income

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net Revenues				
Asset management and administration fees	$ 486	$ 618	$ 988	$ 1,231
Interest revenue	361	478	707	988
Interest expense	(59)	(51)	(99)	(142)
Net interest revenue	302	427	608	846
Trading revenue	272	230	531	476
Other	38	33	96	62
Total other-than-temporary impairment losses	(37)		(187)	
Noncredit portion of loss recognized in other comprehensive income	24		160	
Net impairment losses on securities	(13)		(27)	
Total net revenues	1,085	1,308	2,196	2,615
Expenses Excluding Interest				
Compensation and benefits	377	438	802	875
Professional services	64	84	124	168
Occupancy and equipment	97	72	178	146
Advertising and market development	49	58	107	134
Communications	54	52	107	104
Depreciation and amortization	41	37	83	75
Other	68	53	105	91
Total expenses excluding interest	750	794	1,506	1,593
Income from continuing operations before taxes on income	335	514	690	1,022
Taxes on income	(130)	(201)	(267)	(404)
Income from continuing operations	205	313	423	618
Loss from discontinued operations, net of tax		(18)		(18)
Net Income	$ 205	$ 295	$ 423	$ 600
Weighted-Average Common Shares Outstanding Diluted	1,160	1,154	1,158	1,157

Earnings Per Share Basic								
Income from continuing operations	$	.18	$	.27	$	.37	$	.54
Loss from discontinued operations, net of tax	$		$	(.01)	$		$	(.02)
Net income	$	.18	$	.26	$	.37	$	.52
Earnings Per Share Diluted								
Income from continuing operations	$	.18	$	.27	$	.36	$	.53
Loss from discontinued operations, net of tax	$		$	(.01)	$		$	(.01)
Net income	$	.18	$	.26	$	.36	$	.52
Dividends Declared Per Common Share	$	.06	$	.05	$	.12	$	.10

See Notes to Condensed Consolidated Financial Statements.

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THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Balance Sheets

(In millions, except share and per share amounts)

(Unaudited)

	June 30, 2009	December 31, 2008
Assets		
Cash and cash equivalents	$ 9,362	$ 5,442
Cash and investments segregated and on deposit for regulatory purposes (including resale agreements of $6,795 at June 30, 2009 and $6,701 at December 31, 2008)	15,524	14,685
Receivables from brokers, dealers, and clearing organizations	490	759
Receivables from brokerage clients net	7,704	7,129
Other securities owned at fair value	381	626
Securities available for sale	17,249	14,446
Securities held to maturity (fair value $2,721 at June 30, 2009 and $244 at December 31, 2008)	2,680	243
Loans to banking clients net	6,539	6,044
Loans held for sale	169	41
Equipment, office facilities, and property net	650	661
Goodwill	528	528
Other assets	985	1,071
Total assets	$ 62,261	$ 51,675
Liabilities and Stockholders Equity		
Deposits from banking clients	$ 31,705	$ 23,841
Payables to brokers, dealers, and clearing organizations	1,466	1,100
Payables to brokerage clients	21,601	20,256
Accrued expenses and other liabilities	1,315	1,534
Long-term debt	1,560	883
Total liabilities	57,647	47,614
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; 1,392,091,544 shares issued	14	14
Additional paid-in capital	2,253	2,214
Retained earnings	7,019	6,735
Treasury stock, at cost 231,767,899 shares at June 30, 2009 and 234,991,565 shares at December 31, 2008	(4,310)	(4,349)
Accumulated other comprehensive loss	(362)	(553)
Total stockholders equity	4,614	4,061
Total liabilities and stockholders equity	$ 62,261	$ 51,675

See Notes to Condensed Consolidated Financial Statements.

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THE CHARLES SCHWAB CORPORATION

Condensed Consolidated Statements of Cash Flows

(In millions)

(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash Flows from Operating Activities		
Net income	$ 423	$ 600
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Loss from discontinued operations, net of tax		18
Depreciation and amortization expense	83	75
Stock-based compensation expense	35	33
Net impairment losses on securities	27	
Other	(20)	(29)
Originations of loans held for sale	(1,900)	(1,054)
Proceeds from sales of loans held for sale	1,777	1,019
Net change in:		
Cash and investments segregated and on deposit for regulatory purposes	(839)	(551)
Other securities owned	245	203
Receivables from brokers, dealers, and clearing organizations	275	212
Receivables from brokerage clients	(577)	(614)
Other assets	28	15
Payables to brokers, dealers, and clearing organizations	416	865
Payables to brokerage clients	1,345	(788)
Accrued expenses and other liabilities	(212)	(228)
Net cash provided by (used for) operating activities	1,106	(224)
Cash Flows from Investing Activities		
Purchases of securities available for sale	(5,511)	(6,294)
Proceeds from sales of securities available for sale	85	
Principal payments on securities available for sale	2,869	826
Purchases of securities held to maturity	(2,464)	
Principal payments on securities held to maturity	28	
Net increase in loans to banking clients	(581)	(1,461)
Purchase of equipment, office facilities, and property	(69)	(81)
Other investing activities	(1)	(5)
Net cash used for investing activities	(5,644)	(7,015)
Cash Flows from Financing Activities		
Net change in deposits from banking clients	7,864	6,087
Issuance of long-term debt	747	
Repayment of long-term debt	(40)	(17)
Dividends paid	(139)	(115)
Purchase of treasury stock		(350)
Proceeds from stock options exercised and other	31	75
Other financing activities	(5)	34

Net cash provided by financing activities	8,458	5,714
Increase (decrease) in Cash and Cash Equivalents	3,920	(1,525)
Cash and Cash Equivalents at Beginning of Period	5,442	6,764
Cash and Cash Equivalents at End of Period	$ 9,362	$ 5,239
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest	$ 68	$ 142
Income taxes	$ 203	$ 428

See Notes to Condensed Consolidated Financial Statements.

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THE CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

1. Basis of Presentation

The Charles Schwab Corporation (CSC) is a savings and loan holding company engaged, through its subsidiaries, in securities brokerage, banking, and related financial services. Charles Schwab & Co., Inc. (Schwab) is a securities broker-dealer with 304 domestic branch offices in 45 states, as well as a branch in each of the Commonwealth of Puerto Rico and London, U.K. In addition, Schwab serves clients in Hong Kong through one of CSC s subsidiaries. Other subsidiaries include Charles Schwab Bank (Schwab Bank), a federal savings bank, and Charles Schwab Investment Management, Inc. (CSIM), the investment advisor for Schwab s proprietary mutual funds, which are referred to as the Schwab Funds®.

The accompanying unaudited condensed consolidated financial statements include CSC and its majority-owned subsidiaries (collectively referred to as the Company). All material intercompany balances and transactions have been eliminated. These condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the U.S. (GAAP), which require management to make certain estimates and assumptions that affect the reported amounts in the accompanying financial statements. Certain estimates include other-than-temporary impairment of securities available for sale and securities held to maturity, the valuation of goodwill, the allowance for credit losses, and legal reserves. Actual results could differ from those estimates. These condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the periods presented. These adjustments are of a normal recurring nature. Certain prior-year amounts have been reclassified to conform to the 2009 presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. The Company s results for any interim period are not necessarily indicative of results for a full year or any other interim period.

Management has evaluated subsequent events through the date the condensed consolidated financial statements were issued, which was August 6, 2009.

2. New Accounting Standards

Statement of Financial Accounting Standards No. 141R Business Combinations (SFAS No. 141R), was effective beginning January 1, 2009. This statement generally requires an acquirer to recognize the assets acquired, the liabilities assumed, contingent purchase consideration, and any noncontrolling interest in the acquiree, at fair value on the date of acquisition. SFAS No. 141R also requires an acquirer to expense most transaction and restructuring costs as incurred, and not include such items in the cost of the acquired entity. SFAS No. 141R applies to any business acquisition with an acquisition date on or after January 1, 2009.

SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements, was effective beginning January 1, 2009. This statement amends Accounting Research Bulletin No. 51 Consolidated Financial Statements by establishing financial statement presentation and disclosure requirements for reporting noncontrolling ownership interests. SFAS No. 160 also establishes consistent accounting methods for changes in ownership interest and for the valuation of retained noncontrolling investments upon deconsolidation. The adoption of SFAS No. 160 did not have a material impact on the Company s financial position, results of operations, earnings per share (EPS), or cash flows.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities, was effective beginning January 1, 2009. This statement amends the disclosure requirements of SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities by requiring qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. SFAS No. 161 does not require any new derivative or hedging measurements. The adoption of SFAS No. 161 did not have a material impact to the Company s disclosures about derivative instruments and hedging activities.

SFAS No. 165 Subsequent Events, was issued in May 2009 and was effective for interim and annual reporting periods ending after June 15, 2009. This statement establishes general standards of accounting for and disclosure of subsequent events. The Company adopted this statement in the second quarter of 2009, and the adoption did not have a material impact

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Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

on the Company s financial position, results of operations, EPS or cash flows. See note 1 Basis of Presentation, for disclosures pursuant to SFAS No. 165.

SFAS No. 166 Accounting for Transfers of Financial Assets, was issued in June 2009 and is effective for financial asset transfers occurring after January 1, 2010. This statement removes the concept of a qualifying special-purpose entity and amends the standards of accounting for a transfer of a portion of a financial asset as a sale and related disclosures. The adoption of SFAS No. 166 is not expected to have a material impact on the Company s financial position, results of operations, EPS or cash flows.

SFAS No. 167 Amendments to Financial Accounting Standards Board (FASB) Interpretation No. 46(R), was issued in June 2009 and is effective January 1, 2010. This statement amends the consolidation guidance applicable to variable interest entities (VIEs), including changing the approach to determining a VIE s primary beneficiary (the reporting entity that must consolidate the VIE) and the frequency of reassessment. The Company is currently evaluating the impact of the adoption of SFAS No. 167 on its financial position, results of operations, EPS or cash flows.

SFAS No. 168 The FASB Accounting Standards Codification and the Hierarchy of GAAP, was issued in June 2009 and is effective for interim and annual reporting periods ending after September 15, 2009. This statement establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The adoption of SFAS No. 168 will not have an impact on the Company s financial position, results of operations, EPS or cash flows.

FASB Staff Position (FSP) on Emerging Issues Task Force (EITF) Issue 03-6-1 (FSP EITF 03-6-1) Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities, was effective beginning January 1, 2009. This FSP requires the inclusion of unvested share-based payment awards with non-forfeitable rights to dividends or dividend equivalents as participating securities in the computation of EPS under the two-class method described in SFAS No. 128 Earnings Per Share. This FSP requires retrospective adjustment to all prior-period EPS data presented. The Company does have participating securities in the form of unvested restricted common shares related to the Company s stock incentive plans. However, these participating securities do not have a material impact on the Company s EPS data presented.

FSP on SFAS No. 115-2 and SFAS No. 124-2 (FSP SFAS 115-2 and 124-2) Recognition and Presentation of Other-Than-Temporary Impairments, was issued in April 2009 and is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for interim periods ending after March 15, 2009. This FSP modifies the requirements for recognizing impairment charges on other-than-temporarily impaired (OTTI) debt securities and expands the disclosures related to OTTI debt and equity securities. The Company adopted this FSP in the first quarter of 2009. See note 3 Securities Available for Sale and Securities Held to Maturity, for additional information and disclosures pursuant to FSP SFAS 115-2 and 124-2.

FSP on SFAS No. 157-4 (FSP SFAS 157-4) Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly, was issued in April 2009 and is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157 Fair Value Measurements (SFAS No. 157) when the volume and level of activity for an asset or liability have significantly decreased, including guidance on identifying circumstances that indicate a transaction is not orderly. This FSP also requires additional disclosures for instruments within the scope of SFAS No. 157. The Company adopted this FSP in the first quarter of 2009, and the adoption did not have a material impact on the Company s financial position, results of operations, EPS or cash flows. See note 7 Fair Values of Assets and Liabilities, for disclosures pursuant to FSP SFAS 157-4.

FSP on SFAS 107-1 and Accounting Principles Board Opinion (APB) 28-1 Interim Disclosures About Fair Value of Financial Instruments, was issued in April 2009 and is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. This FSP expands the fair value disclosures required for all financial instruments within the scope of SFAS

No. 107 Disclosures about Fair Value of Financial Instruments to interim periods and requires entities to disclose the methods and significant assumptions used to

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Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

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estimate the fair value of financial instruments in financial statements on an interim and annual basis and to highlight any changes from prior periods. The Company adopted this FSP in the first quarter of 2009. See note 7 Fair Values of Assets and Liabilities, for disclosures pursuant to FSP SFAS 107-1 and APB 28-1.

3. Securities Available for Sale and Securities Held to Maturity

The amortized cost, gross unrealized gains and losses, and fair value of securities available for sale and securities held to maturity are as follows:

June 30, 2009	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities available for sale:				
U.S. agency residential mortgage-backed securities	$ 8,714	$ 169	$ 41	$ 8,842
Corporate debt securities	2,443	15	3	2,455
Non-agency residential mortgage-backed securities	2,678		739	1,939
Certificates of deposit	1,576	1	2	1,575
U.S. agency notes	1,386	4		1,390
Asset-backed securities	1,008	7	2	1,013
Commercial paper	35			35
Total securities available for sale	$ 17,840	$ 196	$ 787	$ 17,249
Securities held to maturity:				
U.S. agency residential mortgage-backed securities	$ 1,252	$ 22	$	$ 1,274
Asset-backed securities	1,173	15		1,188
Corporate debt securities	255	4		259
Total securities held to maturity	$ 2,680	$ 41	$	$ 2,721

December 31, 2008	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities available for sale:				
U.S. agency residential mortgage-backed securities	$ 8,203	$ 108	$ 82	$ 8,229
Corporate debt securities	1,762	2	31	1,733
Non-agency residential mortgage-backed securities	3,085		862	2,223
Certificates of deposit	925		3	922
U.S. agency notes	515	2		517
Asset-backed securities	866		44	822
Total securities available for sale	$ 15,356	$ 112	$ 1,022	$ 14,446

Securities held to maturity:								
Asset-backed securities	$	243	$	1	$		$	244
Total securities held to maturity	$	243	$	1	$		$	244

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(Unaudited)

A summary of securities with unrealized losses, aggregated by category and period of continuous unrealized loss, is as follows:

	Less than 12 months		12 months or longer		Total	
June 30, 2009	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Securities available for sale:						
U.S. agency residential mortgage-backed securities	$ 1,072	$ 10	$ 2,319	$ 31	$ 3,391	$ 41
Corporate debt securities	524	1	288	2	812	3
Non-agency residential mortgage-backed securities			1,934	739	1,934	739
Certificates of deposit	699	1	99	1	798	2
Asset-backed securities	210	1	266	1	476	2
Total securities with unrealized losses [(1)]	$ 2,505	$ 13	$ 4,906	$ 774	$ 7,411	$ 787

(1) The number of investment positions with unrealized losses totaled 332.

	Less than 12 months		12 months or longer		Total	
December 31, 2008	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Securities available for sale:						
U.S. agency residential mortgage-backed securities	$ 2,231	$ 63	$ 381	$ 19	$ 2,612	$ 82
Corporate debt securities	477	11	436	20	913	31
Non-agency residential mortgage-backed securities	1,704	512	513	350	2,217	862
Certificates of deposit	647	3			647	3
Asset-backed securities	822	44			822	44
Total securities with unrealized losses	$ 5,881	$ 633	$ 1,330	$ 389	$ 7,211	$ 1,022

Unrealized losses in securities available for sale were $787 million as of June 30, 2009, and were concentrated in non-agency residential mortgage-backed securities. U.S. agency residential mortgage-backed securities do not have explicit credit ratings, however management considers these to be of the highest credit quality given the guarantee of principal and interest by the U.S. agencies. Included in non-agency residential mortgage-backed securities are securities collateralized by loans that are considered to be Prime (defined as loans to borrowers with a Fair Isaac & Company credit score of 620 or higher at origination), and Alt-A (defined as Prime loans with reduced documentation at origination). At June 30, 2009, the amortized cost and fair value of Alt-A mortgage-backed securities were $709 million and $382 million, respectively. Corporate debt securities at June 30, 2009, included $983 million of securities issued by financial institutions and guaranteed under the Federal Deposit Insurance Corporation Temporary Liquidity Guarantee Program.

Assessment of Other-Than-Temporary Impairment

Management evaluates whether securities available for sale and securities held to maturity are OTTI on a quarterly basis. Debt securities with unrealized losses are considered OTTI if the Company intends to sell the security or if the Company will be required to sell such security prior to any anticipated recovery. If management determines that a security is OTTI under these circumstances, the impairment recognized in earnings is measured as the entire difference between the amortized cost and then-current fair value. A security is also OTTI if management does not expect to recover the amortized cost of the security. However, if the Company does not intend to sell the security and will not be required to sell the security, management utilizes cash flow models to estimate the expected future cash flow from the securities and to assess the probability that the Company will experience a loss. In this circumstance, the impairment recognized in earnings equals the estimated credit losses as measured by the difference between the present value of expected cash flows and the amortized cost of the security. Expected cash flows are discounted using the security s effective interest rate.

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(Unaudited)

The evaluation of whether the Company expects to recover the amortized cost of a security is inherently judgmental. The evaluation includes the assessment of several bond performance indicators including: the portion of the underlying loans that are delinquent (30 days, 60 days, 90+ days), in bankruptcy, in foreclosure or converted to real estate owned; the actual amount of loss incurred on the underlying loans in which the property was foreclosed and sold; the amount of credit support provided by the structure of the security available to absorb credit losses on the underlying loans; the current credit ratings issued by either Standard & Poor s, Fitch Ratings, or Moody s; the current price and magnitude of the unrealized loss; and whether the Company has received all scheduled principal and interest payments.

Certain Alt-A and Prime mortgage-backed securities experienced deteriorating credit characteristics in the first half of 2009, including increased payment delinquencies and decreased prepayments due to the slowing of general economic activity and increased unemployment. Losses on foreclosures of underlying mortgages increased as a result of housing price declines. Management uses cash flow models to further assess the likelihood of other-than-temporary impairment for all Alt-A securities, as well as Prime securities with deteriorating bond performance indicators such as those described above. To develop the cash flow models, the Company uses forecasted loss severity, prepayment speeds (i.e. the rate at which the principal on underlying loans are paid down), and default rates over the securities remaining maturities. Forecasted home price fluctuations are an important variable in forecasting the expected loss severity and default rates. Based on these cash flow projections, management determined that it does not expect to recover all of the amortized cost of certain securities and therefore determined that these securities were OTTI.

The Company does not intend to sell these securities and it will not be required to sell these securities before anticipated recovery. The Company employs a buy and hold strategy relative to its mortgage-related securities. Further, the Company has an adequate liquidity position at June 30, 2009, with cash and cash equivalents totaling $9.4 billion, a loan-to-deposit ratio of 21%, adequate access to short-term borrowing facilities and regulatory capital ratios in excess of well capitalized levels. Because the Company does not intend to sell these securities and will not be required to sell these securities, the Company recognized an impairment charge equal to the securities expected credit losses of $13 million and $27 million during the second quarter and first half of 2009, respectively. The expected credit losses were measured as the difference between the present value of expected cash flows and the amortized cost of the securities.

As of June 30, 2009, the Company has not realized an actual credit loss on any of its residential mortgage-backed securities. Further deterioration in the performance of the underlying loans in the Company s residential mortgage-backed securities portfolio could result in the recognition of additional future impairment charges.

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THE CHARLES SCHWAB CORPORATION

Notes to Condensed Consolidated Financial Statements

(Tabular Amounts in Millions, Except Per Share Data, Ratios, or as Noted)

(Unaudited)

The maturities of securities available for sale and securities held to maturity at June 30, 2009, are as follows:

		Within 1 year		**After 1 year through 5 years**		**After 5 years through 10 years**		**After 10 years**		**Total**
Securities available for sale:										
U.S. agency residential mortgage-backed securities [1]	$		$		$	206	$	8,636	$	8,842
Corporate debt securities		647		1,808						2,455
Non-agency residential mortgage-backed securities [1]						36		1,903		1,939
Certificates of deposit		1,275		300						1,575
U.S. agency notes		300		1,090						1,390
Asset-backed securities				684		329				1,013
Commercial Paper		35								35
Total fair value	$	2,257	$	3,882	$	571	$	10,539	$	17,249
Total amortized cost	$	2,257	$	3,863	$	567	$	11,153	$	17,840
Securities held to maturity:										
U.S. agency residential mortgage-backed securities [1]	$		$		$		$	1,274	$	1,274
Asset-backed securities				923		265				1,188
Corporate debt securities		12	&idth="4%" style="background: transparent">	(f)		**Hwini-Butre** As part of the Sales Agreement for the purchase of the HBB properties, Golden Star has agreed to pay B.D. Goldfields Ltd an additional $1.0 million upon receipt of all the				

necessary licenses, permits, approvals and consents required to mine the Hwini-Butre concession.

(g) We are engaged in routine litigation incidental to our business. No material legal proceedings, involving us or our business are pending, or, to our knowledge, contemplated, by any governmental authority. We are not aware of any material events of non compliance with environmental laws and regulations.

15. Warrants

The following warrants were outstanding as of December 31, 2006 and 2005.

Issued with:	Date issued	Warrants outstanding	Exercise price	Expiration date
Equity offering	February 14, 2003	8,448,334	Cdn$4.60	February 14, 2007
St. Jude acquisition	December 21, 2005	3,240,000	Cdn$4.17	November 20, 2008
Total		11,688,334		

The 8.4 million warrants expired on February 14, 2007 traded on the Toronto Stock Exchange under the symbol GSC.WT.A. During 2005, 385,000 warrants were exercised resulting in cash proceeds of $0.7 million to Golden Star.

16. Stock based compensation

Stock Options We have one stock option plan, the Second Amended and Restated 1997 Stock Option Plan (the Plan) and options are granted under this plan from time to time at the discretion of the Compensation Committee. Options granted are non assignable and are exercisable for a period of ten years or such other period as stipulated in a stock option agreement between Golden Star and the optionee. Under the Plan, we may grant options to employees, consultants and directors of the Company or its subsidiaries for up to 15,000,000 shares of common stock. Under the plan we reserved an aggregate of 15,000,000 shares of common stock for issuance pursuant to the exercise of options of which 5,647,150 are available at December 31, 2006. Options take the form of non qualified stock options, and the exercise price of each option is not less than the market price of our stock on the date of grant. Options typically vest over periods ranging from immediately to four years from the date of grant. Vesting periods are determined at the discretion of the Compensation Committee.

In addition to options issued under the Plan, 2,533,176 options were issued to various employees of St. Jude in exchange for St. Jude options of which 792,000 remain unexercised as of December 31, 2006. All of the remaining unexercised options held by St. Jude employees are vested. All figures shown below include the options issued to St. Jude employees.

Amounts recognized in the statements of operations with respect to the Plan are as follows:

	2006	2005	2004
Total stock compensation cost during the period	$1,842	$900	$1,400

We granted 1,411,750, 514,000 and 855,000 options under the Plan during the years ended December 31, 2006, 2005 and 2004, respectively. Golden Star does not receive a tax deduction for the issuance of options. As a result we did not recognize any income tax benefit related to the stock compensation expense during the years ended December 31, 2006, 2005 and 2004.

The fair value of options granted during 2006 and 2005 were estimated at the grant dates using the Black Scholes option pricing model based on the assumptions noted in the following table:

	2006	2005	2004
Expected volatility	50.67 to 63.83%	27.3 to 34.9%	36%
Risk free interest rate	4.00% to 4.70%	2.75% to 3.50%	3.72% to 4.06%
Expected lives	4 to 7 years	0.5 to 5 years	3.5 to 5 years
Dividend yield	0%	0%	0%

In 2006, expected volatilities are based on the mean reversion tendency of the volatility of Golden Star s shares and its peer group. Golden Star uses historical data to estimate share option exercise and employee departure behavior used in the Black Scholes model; groups of employees that have dissimilar historical behavior are considered separately for valuation purposes. The expected term of the options granted represents the period of time that the options granted are expected to be outstanding; the range given above results from certain groups of employees exhibiting different post vesting behaviors. The risk free rate for periods within the contractual term of the option is based on the Canadian Chartered Bank Administered Interest rates in effect at the time of the grant.

A summary of option activity under the Plan as of December 31, 2006 and changes during the year then ended is presented below:

	Options (000)	Weighted Average Exercise price (Cdn$)	Weighted Average Remaining Contractual Term (Years)	Aggregate intrinsic value ($000)
Outstanding as of December 31, 2005	7,390	2.75	5.2	$ 2,533
Granted	1,412	3.59	9.6	
Exercised	(1,933)	1.96		(3,162)
Forfeited	(313)	5.89		
Outstanding as of December 31, 2006	6,556	2.98	5.7	3,583
Exercisable at December 31, 2006	5,381	2.73	5.0	$ 2,668

	Options outstanding			Options exercisable	
Range of exercise prices (Cdn$)	Number outstanding at December 31, 2006	Weighted average remaining contractual life (years)	Weighted-average exercise price (Cdn$)	Number exercisable at December 31, 2006	Weighted-average exercise price (Cdn$)
1.00 to 2.50	3,396	3.5	1.58	3,396	1.58
2.51 to 4.00	1,882	8.4	3.46	1,078	3.43
4.01 to 7.00	1,234	7.5	5.90	863	6.07
7.01 to 10.00	44	7.0	9.07	44	9.07
	6,556	5.7	2.98	5,381	2.73

The weighted average grant date fair value of share options granted during the years ended December 31, 2006, 2005 and 2004 was Cdn$2.61, Cdn$0.95 and Cdn$2.45, respectively. The intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $3.2 million, $0.4 million, and $4.4 million, respectively.

A summary of the status of non vested options at December 31, 2006 and changes during the year ended December 31, 2006, is presented below:

	Number of options (000)	Weighted average grant date fair value (Cdn$)
Non-vested at January 1, 2006	670	1.95
Granted	1,412	2.61
Vested	(764)	2.43
Forfeited	(143)	2.36

Non-vested at December 31, 2006	1,175	2.38

As of December 31, 2006 there was a total unrecognized compensation cost of Cdn$2.0 million related to share based compensation granted under the Plan. That cost is expected to be recognized over a weighted average period of 2.2 years. The total fair values of shares vested during the year ended December 31, 2006, 2005 and 2004 were Cdn$1.9 million, Cdn$2.9 million, and Cdn$ 1.7 million, respectively.

Stock Bonus Plan In December 1992, we established an Employees Stock Bonus Plan (the Bonus Plan) for any full time or part time employee (whether or not a director) of the Company or any of our subsidiaries who has rendered meritorious services which contributed to the success of the Company or any of its subsidiaries. The Bonus Plan provides that a specifically designated committee of the Board of Directors may grant bonus common shares on terms that it might determine, within the limitations of the Bonus Plan and subject to the rules of applicable regulatory authorities. The Bonus Plan, as amended, provides for the issuance of 900,000 common shares of bonus stock of which 495,162 common shares had been issued as of December 31, 2006.

During the year ended December 31, 2006 and 2005 we issued 4,000 and 45,342 common shares, respectively, to employees under the Bonus Plan.

17. Income taxes

We recognize future tax assets and liabilities based on the difference between the financial reporting and tax basis of assets and liabilities using the enacted tax rates expected to be in effect when the taxes are paid or recovered. We provide a valuation allowance against future tax assets for which we do not consider realization of such assets to meet the required more likely than not standard.

Our future tax assets and liabilities at December 31, 2006 and 2005 include the following components:

	December 31,	
	2006	**2005**
Future tax assets:		
Offering costs	$ 1,489	$ 2,577
Non-capital loss carryovers	64,228	62,745
Capital loss carryovers	1,361	12,206
Mine property costs	10,883	10,840
Reclamation costs	3,225	1,226
Derivatives	2,664	4,288
Other	887	1,479
Valuation allowance	(37,227)	(39,240)
Future tax assets	$ 47,510	$ 56,121
Future tax liabilities:		
Mine property costs	$ 81,870	$ 85,575
Derivatives	439	388
Conversion feature discount	529	759
Other	1,619	
Future tax liabilities	84,457	86,722
Net future tax assets/(liabilities)	$ (36,947)	$ (30,601)

Reconciliation of net future tax assets/(liabilities) to Balance sheet:

Current portion of future tax assets		6,248
Future tax assets	6,657	8,223
Current portion of future tax liability	(1,450)	
Future tax liability	(42,154)	(45,072)
Net future tax assets/(liabilities)	$ (36,947)	$ (30,601)

The composition of our valuation allowance by tax jurisdiction is summarized as follows:

	2006	**2005**
Canada	$ 24,692	$ 23,712
France		5,584
Ghana	12,535	9,944

Total valuation allowance	$ 37,227	$ 39,240

During 2006 $5.6 million of valuation allowance related to France was eliminated due to the deconsolidation of EURO.

The provision for income taxes includes the following components:

	2006	2005	2004
Current			
Canada	$	$	$
Foreign			
Future			
Canada	4,926	(4,926)	
Foreign	1,112	(8,004)	(1,542)
Total	$ 6,038	$ (12,930)	$ (1,542)

A reconciliation of expected income tax on net income before minority interest at statutory rates with the actual expenses (recovery) for income taxes is as follows:

	2006	2005	2004
Net income /(loss) before minority interest	$ 71,521	$ (26,184)	$ 2,377
Statutory tax rate	32.5%	32.5%	32.1%
Tax expense/(benefit) at statutory rate	23,258	(8,515)	763
Foreign tax rates	(7,104)	(3,296)	(152)
Change in tax rates	(2,634)	568	
Non-taxable portion of capital (gains)/losses	(5,555)	270	3,174
Expired loss carryovers	842	16,287	1,450
Deconsolidation of EURO carryovers and tax basis	(1,894)		
Ghana investment allowance		(666)	(316)
Non-deductible stock option compensation	599	274	445
Non-deductible expenses	36	163	119
Non-taxable income	(624)		
Tax loss of EURO shares			(2,898)
Loss carryover not previously recognized	(402)	(444)	4,447
Intercompany asset basis not deductible		6,320	
Ghana property basis not previously recognized		862	(2,733)
Non-deductible Ghana property basis	2,213	597	
Change in future tax assets due to exchange rates	(637)	238	(3,919)
Change in valuation allowance	(2,060)	(25,588)	(1,922)
Income tax expense /(recovery)	$ 6,038	$ (12,930)	$ (1,542)

During 2006, 2005 and 2004, we recognized $4.2 million, $0.3 million and $6.4 million, respectively, of share offering costs. Shareholders equity has been credited in the amounts of $1.3 million, $0.1 million and $2.1 million for the tax benefits of these deductions; however a valuation allowance had been provided against their full amount. In addition, in 2005 we reported a $2.9 million discount related to our convertible debt. Shareholders equity has been charged in the amount of $0.9 million for the associated tax expense. A $0.4 million valuation allowance has been provided in shareholders equity for the net tax impact of the share offering costs and discount items.

At December 31, 2006 we had tax pool and loss carryovers expiring as follows:

	Canada	Ghana
2007	$ 356	

2008	1,897	
2009	2,339	
2010	1,099	
2014	10,622	
2015	5,969	
2026	3,996	
Indefinite	8,368	$ 222,732
Total	$ 34,646	$ 222,732

18. Earnings per Common share

The following table provides a reconciliation between basic and diluted earnings per common share:

	For the years ended December 31,		
	2006	**2005**	**2004**
Net income/(loss)	$ 64,689	$ (13,531)	$ 2,642
Weighted average number of common shares (millions)	207.5	143.6	138.3
Dilutive securities:			
Options	2.2	2.7	2.9
Warrants			2.5
Weighted average number of diluted shares	209.7	146.3	143.7
Basic earnings/(loss) per share	$ 0.312	$ (0.094)	$ 0.019
Diluted earnings/(loss) per share	$ 0.308	$ (0.092)	$ 0.018

19. Supplemental cash flow information

The following is a summary of non-cash transactions:

	2006	**2005**	**2004**
Supplemental disclosure of non-cash transactions			
De-consolidation of EURO (see Note 5):			
- Accounts receivable	$2,341	$	$
- Capitalized loan fees	91		
- Accounts payable	754		
- Derivative liability	6,333		
Investment in Goldfields Miniere S.A.(1)			300
Common shares issued to purchase Goldfields Miniere S.A			(300)
Non-cash component of St. Jude Resources Ltd.		110,924	
Common shares, warrants and options issued to purchase St. Jude Resources Ltd.	$	$(110,924)	$

(1) Name changed to Golden Star Miniere SA

There was no cash paid for income taxes during 2006, 2005 and 2004. Cash paid for interest was $4.0 million in 2006 $3.1 million in 2005 and $0.1 million in 2004. A total of $0.1 million of depreciation was included in general and administrative costs or was capitalized into projects.

20. Operations by segment and geographic area

The following segment and geographic data includes revenues based on product shipment origin and long-lived assets based on physical location. Previously Prestea Underground was included in the Other segment, in 2006 we have included Prestea Underground in the Bogoso/Prestea segment, 2005 and 2004 has been adjusted to reflect this change in the composition of our segments.

	Africa					
As of and for the year ended December 31,	**Bogoso/ Prestea**	**Wassa**	**Other**	**South America**	**Corporate**	**Total**
2006						
Revenues	$ 63,563	$ 59,262	$ 18	$ 4,254	$ 1,593	$128,690
Interest expense	786	779		281		1,846
Income tax expense/(recovery)	2,117		(3,229)		(4,926)	(6,038)
Net income/(loss)	8,045	(1,512)	2,586	(3,981)	59,551	64,689
Total assets	360,455	110,866	166,750	7,852	17,851	663,774
2005						
Revenues	$ 58,534	$ 31,405	$	$ 4,282	$ 1,244	$ 95,465
Interest expense	325	348		415	1,328	2,416
Income tax expense/(recovery)	4,848			3,156	4,926	12,930
Net income/(loss)	4,578	(8,994)	(20)	(412)	(8,683)	(13,531)
Total assets	168,166	103,506	175,232	10,604	107,095	564,603
2004						
Revenues	$ 61,002	$	$	$ 3,145	$ 882	$ 65,029
Interest expense	105			15	19	139
Income tax expense/(recovery)	1,542					1,542
Net income/(loss)	12,533	(168)		1,772	(11,495)	2,642
Total assets	105,624	70,681	15,753	817	59,285	252,160

21. Related parties

During 2006, we obtained legal services from a legal firm to which our Chairman is of counsel. The total cost of all services purchased during 2006 and 2005 was $0.5 million and $1.2 million, respectively. Our Chairman did not personally perform any legal services for us during 2006 or 2005 nor did he benefit directly or indirectly from payments for the services performed by the firm.

During the first quarter of 2006, a corporation controlled by Michael A. Terrell, a director of Golden Star, provided management services to St. Jude for which it was paid Cdn$0.13 million. Mr. Terrell became a director of Golden Star following our acquisition of St. Jude in December 2005. Mr. Terrell s company ceased providing services to St. Jude at March 31, 2006.

22. Financial Instruments

Fair Value **-** Our financial instruments are comprised of cash, short-term investments, accounts receivable, restricted cash, accounts payable, accrued liabilities, accrued wages, payroll taxes and debt. The fair value of cash and short-term investments, accounts receivable, accounts payable, accrued liabilities and accrued wages, payroll taxes and current debt equals their carrying value due to the short-term nature of these items. The fair value of restricted cash is equal to the carrying value as the cash is invested in short-term, high-quality instruments. See Note 11 for fair values of long term debt.

23. Subsequent Event

Equity Offering On March 1, 2007, we sold 21 million common shares at a price of $3.60 per share resulting in $75.6 million in gross proceeds. Net proceeds were $72.2 million after deducting underwriting commissions but before deducting offering expenses. On March 9, 2007 the underwriters exercised their option to sell an additional 3.15 million common shares for additional gross proceeds of $11.3 million. After deducting underwriting commissions, net proceeds from these additional shares were $10.8 million. The proceeds will be used to purchase an interest in an electric power station in Ghana, for completion and start-up of the Bogoso sulfide expansion project, for a feasibility study and if warranted, development of the HBB Properties, and for general corporate and working capital purposes.

On February 14, 2007 warrants to purchase 8.4 million common shares at a strike price of Cdn$4.60 expired.

24. Generally Accepted Accounting Principles in the United States

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which differ from US GAAP. The effect of applying US GAAP to our financial statements is shown below.

We restated our US GAAP note to its financial statements for the years ended 2005 and 2004 to comply with US GAAP accounting for warrants to purchase common shares which have an exercise price in Canadian dollars. Under Canadian GAAP, warrants to purchase common shares are accounted for as a component of shareholders equity. Under the Statement of Financial Accounting Standards 133, Accounting for Derivative Instruments and Hedging Activities, issuers that have warrants with an exercise price denominated in a currency other than the issuer s functional currency are required to treat the fair value of the warrants as a liability and to mark to market those warrants at the end of every period. The Company s functional currency is United States dollars.

(a) Consolidated Balance Sheets in US GAAP

	As of December 31, 2006	2005 (restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,108	$ 89,709
Accounts receivable	8,820	6,560
Inventories	45,475	23,181
Future tax assets		6,248
Fair value of derivatives		1,220
Deposits	7,673	5,185
Other current assets	1,458	686
Total current assets	90,534	132,789
Restricted cash	1,581	3,865
Available-for-sale and long term investments (Notes d1 and d2)	5,718	15,182
Deferred exploration and development costs (Notes d3 and d4)		
Property, plant and equipment (Note d5)	92,345	83,813
Mine construction in progress	165,155	36,706
Mining properties (Notes d3, d4 and d5)	243,532	237,153
Deferred stripping (Note d6)		1,548
Future tax asset (Note d10)	6,657	8,223
Other assets	573	3,164
Total assets	$ 606,095	$ 522,443
LIABILITIES		
Current liabilities	$ 69,151	$ 40,815
Long term debt (Note d8)	68,539	66,632
Asset retirement obligations	16,034	8,286
Future tax liability	42,154	45,072
Fair value of long term derivatives (Note d7)	2,897	15,842

Total liabilities	198,775	176,647
Minority interest	2,902	1,964
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Share capital (Note d8)	524,239	523,696
Contributed surplus (Note d10)	9,048	4,419
Accumulated comprehensive income and other (Note d2)	7,034	9,495
Deficit	(135,903)	(193,778)
Total shareholders equity	404,418	343,832
Total liabilities and shareholders equity	$ 606,095	$ 522,443

(b) Consolidated Statements of Operations under US GAAP

	For the years ended December 31, 2006	2005 (restated)	2004 (restated)
Net income under Cdn GAAP	$ 64,689	$(13,531)	$ 2,642
Deferred exploration expenditures expensed per US GAAP (Note d3 and d4)	(15,911)	(14,597)	(5,735)
Impact of start-up accounting (Note d5)	1,738	(4,888)	
Write-off of deferred exploration properties (Note d3)	1,847	1,403	
Capitalized mine property acquisition cost expensed for US GAAP (Note d4)			(6,799)
Derivative gain on non-US$ warrants (Note d11)	5,682	4,478	56,854
Other (Notes d3)	(28)	455	
Net income/(loss) under US GAAP before minority interest	58,017	(26,680)	46,962
Minority interest, as adjusted	(142)	2,210	746
Net income/(loss) under US GAAP	57,875	(24,470)	47,708
Other comprehensive income gain on marketable securities (Note d2)	5,718	8,179	
Comprehensive income/(loss)	$ 63,593	$(16,291)	$47,708
Basic net income/(loss) per share under US GAAP	$ 0.279	$ (0.170)	$ 0.345
Diluted net income/(loss) per share under US GAAP	$ 0.276	$ (0.170)	$ 0.327

(c) Consolidated Statements of Cash Flows under US GAAP

	For the years ended December 31, 2006	2005 (restated)	2004 (restated)
Cash provided by (used in):			
Operating activities	$(10,513)	$ (27,530)	$ 575
Investing activities	(76,211)	(38,899)	(95,113)
Financing activities	24,123	143,261	17,445
Increase/(decrease) in cash and cash equivalents	(62,601)	76,832	(77,093)
Cash and cash equivalent beginning of period	89,709	12,877	89,970
Cash and cash equivalents end of period	$ 27,108	$ 89,709	$ 12,877

(d) Notes.

(1) Under US GAAP, minority investments in entities whose major business is mineral exploration are deemed to be equivalent to exploration spending and are expensed as incurred.

(2)

Under US GAAP, investments in marketable equity securities are marked to fair value at the end of each period with gains and losses recognized in other comprehensive income. Under Cdn GAAP gains and losses on marketable equity securities are noted in the foot notes and recognized in the statement of operations only when the investment is sold.

(3) Under US GAAP, exploration and general and administrative costs related to exploration projects are charged to expense as incurred. Under Cdn GAAP, exploration, acquisition and direct general and administrative costs related to exploration projects are capitalized. In each subsequent period, the exploration, engineering, financial and market information for each exploration project is reviewed by management to determine if any of the capitalized costs are impaired. If found impaired, the asset s cost basis is reduced in accordance with Cdn GAAP provisions.

(4) Under US GAAP, the initial purchase cost of mining properties is capitalized. Pre-acquisition costs and subsequent development costs incurred, until such time as a bankable feasibility study is completed, are expensed in the period incurred. Under Cdn GAAP, the purchase costs of new mining properties as well as all development costs incurred after acquisition are capitalized and subsequently reviewed each period for impairment. If found to be impaired, the asset s cost basis is reduced in accordance with Cdn GAAP provisions.

(5) Under US GAAP new production facilities are placed in service once the facility has been constructed and fully tested to the point where it can be shown that it is capable of producing its intended product. Under Cdn GAAP new production facilities are placed in service when output reaches a significant portion of the facility s design capacity. As such, the new Wassa mine and processing operation was placed in service on January 1, 2005 for US GAAP purposes and was placed in service on April 1, 2005 for Cdn GAAP purposes. All operating expenses, including ARO accretion, depreciation, depletion and amortization and work in process inventory adjustments were recognized in the statement of operations for US GAAP during the first quarter of 2005 while such costs were capitalized net of revenues generated for Cdn GAAP.

(6) Under US GAAP deferred stripping should be expensed and transition provisions allow any remaining balances in deferred stripping asset accounts to be closed directly to retained earnings on January 1, 2006. Under Cdn GAAP deferred stripping could be retained as an acceptable accounting method in Canada under certain circumstances. We did not defer any additional production phase stripping costs as of January 1, 2006 for both US and Cdn GAAP and therefore have a zero balance for deferred stripping at December 31, 2006 for both US and Cdn GAAP.

(7) Under US GAAP the fair value of warrants denominated in currencies other than US$ is treated as a derivative liability. Under Cdn GAAP the fair value of all warrants are treated as a component of equity.

(8) For US GAAP purposes, 100% of the $50.0 million of convertible notes issued in the second quarter of 2005 was classified as a liability. Under Cdn GAAP, the fair value of the conversion feature is classified as equity and the balance is classified as a liability. Under Cdn GAAP, the liability portion is accreted each period in amounts which will increase the liability to its full amount as of the maturity date and the accretion is recorded as interest expense.

(9) Numerous transactions since the Company s organization in 1992 have contributed to the difference in share capital versus the Cdn GAAP balance, including: (i) under US GAAP, compensation expense was recorded for the difference between quoted market prices and the strike price of options granted to employees and directors under stock option plans while under Cdn GAAP, recognition of compensation expense was not required; (ii) in May 1992 our accumulated deficit was eliminated through an amalgamation (defined as a quasi-reorganization under US GAAP); under US GAAP the cumulative deficit was greater than the deficit under Cdn GAAP due to the past write-offs of certain deferred exploration costs; (iii) gains recognized in Cdn GAAP upon issuances of subsidiaries shares are not allowed under US GAAP; (iv) when warrants denominated in currencies other than US$ are exercised the difference between the fair value and the strike price of the warrant is recorded as share capital for US GAAP purposes, but under Cdn GAAP only the strike price is recorded as share capital on exercise.

(10) Under Cdn GAAP the issuance-date fair value of all warrants issued and outstanding are recorded as contributed surplus. Under US GAAP contributed surplus excludes the fair value of warrants denominated in currencies other than US$. The fair value of warrants denominated in currencies other than US$ is recorded as a derivative liability.

(11) Under US GAAP the change in fair value of warrants denominated in currencies other than US$ is recognized in the Statement of Operations. Under Cdn GAAP warrants are not marked to fair value.

(12) Impact of Recently Issued Accounting Standards.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 . This Statement, among other things, allows a preparer to elect fair value measurement of instruments in cases in which a derivative would otherwise have to be bifurcated. The provisions of this Statement are effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. We do not believe that the adoption of this Statement in fiscal 2007 will have a material impact on our consolidated financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140 This Statement amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , with respect to the accounting for separately recognized servicing assets and servicing liabilities. The provisions of this Statement are effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. We do not believe that the adoption of this Statement in fiscal 2007 will have a material impact on our consolidated financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48) which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income taxes assets and liabilities. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be recognized as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. We are currently evaluating the impact of adopting the provisions of FIN 48 in fiscal 2008.

In September 2006 FASB issued SFAS No. 157, *Fair Value Measurement* define fair value, establish a framework for measuring fair value and to expand disclosures about fair value measurements. The statement only applies to fair value measurements that are already required or permitted under current accounting standards and is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of this Interpretation to have a significant effect on the company s results of operations or financial position.

25. Quarterly Financial Data (Unaudited)

	2006 Quarters ended[2]				**2005 Quarters ended[1]**			
($ millions, except per share data)	**Dec. 31**	**Sept. 30**	**Jun. 30**	**Mar. 31**	**Dec. 31**	**Sept. 30**	**Jun 30**	**Mar . 31**
Revenues	$ 33.2	$ 36.6	$ 31.5	$ 27.4	$ 27.7	$ 24.7	$ 24.9	$ 18.1
Net income/(loss)	30.8	1.5	13.1	19.3	(1.0)	(6.7)	(3.7)	(2.2)
Net earnings/(loss) per share								
Basic	$0.148	$0.007	$0.063	$0.093	$(0.007)	$(0.047)	$(0.026)	$(0.016)
Diluted	$0.146	$0.007	$0.063	$0.092	$(0.007)	$(0.047)	$(0.026)	$(0.016)

(1) Quarters one, two and three of 2005 have been restated as if hedge accounting had

not been applied to EURO s gold futures contracts. EURO did not apply hedge accounting to quarter four and thus it is not restated.

(2) Reflect the restatement of in-process metals inventories for quarters one, two and three.

26. Measurement Uncertainty

The carrying value of the assets in respect of the Wassa mine was $95.1 million as at December 31, 2006. The valuation of the Wassa mine is highly sensitive to assumptions regarding the price of gold and the number of ounces expected to be produced. As at December 31, 2006, the impairment analysis incorporated the following key assumptions:

- Gold prices per ounce of $650 in 2007, $638 in 2008, $592 in 2009, and $562 in 2010 and 2011.
- Approximately one third of the non-reserve resources would eventually be found economic and would be mined and processed.

Based on these assumptions, the Wassa mine was not impaired based on the projected undiscounted cash flows of the mine.

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. The following documents are filed as part of this Report:
   1. Financial Statements

      Management s Report

      Auditors Report

      Consolidated Balance Sheets as of December 31, 2006 and 2005

      Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004

      Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2006, 2005 and 2004

      Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

      Notes to the Consolidated Financial Statements
   2. Financial Statement Schedules

      Financial Statement schedules have been omitted since they are either not required, are not applicable, or the required information is shown in the financial statements or related notes.

3. Exhibits

3(i) Incorporating Documents of the Company, including: Articles of Arrangement dated May 14, 1992, with Plan of Arrangement attached, with Certificate of Amendment with respect thereto dated May 15, 1992; Certificate of Amendment dated May 15, 1992, with Articles of Amendment; Certificate of Amendment dated March 26, 1993, with Articles of Amendment; Articles of Arrangement dated March 7, 1995, with Plan of Arrangement attached, with Certificate of Amendment with respect thereto dated March 14, 1995; Certificate of Amendment dated July 29, 1996, with Articles of Amendment; and Certificate of Amendment dated July 10, 2002, with Articles of Amendment (all incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on January 23, 2003); Articles of Amendment dated May 6, 2005 (incorporated by reference to the Company s Form 10-K for the year ended December 31, 2006)

3(ii) Bylaws of the Company, including: Bylaw Number One, amended and restated as of April 3, 2002 (incorporated by reference to Exhibit 4.3 to the Company s Registration Statement on Form S-3 (Reg. No. 333-102225) filed on December 27, 2002); Bylaw Number Two, effective May 15, 1992 (incorporated by reference to Exhibit 4.2 to the Company s Form 8-K filed on January 23, 2003); and Bylaw Number Three, effective May 15, 1992 (incorporated by reference to Exhibit 4.2 to the Company s Form 8-K filed on January 23, 2003)

4.1 Form of Specimen Certificate for Common Shares (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-3/A (Reg. No. 333-91666) filed on July 15, 2002)

4.2 Amended and Restated Shareholder s Rights Plan dated as of May 20, 2004 between the Company and CIBC Mellon Trust Company, as rights agent (incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed June 3, 2004)

4.3 Securities Purchase Agreement dated April 15, 2005 between the Company and Amaranth LLC (incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on April 19, 2005)

4.4 Form of Senior Convertible Note dated April 15, 2005 (incorporated by reference to Exhibit 4.2 to the Company s Form 8-K filed on April 19, 2005)

4.5 Amendment No. 1 dated January 29, 2007 to Senior Convertible Notes issued April 15, 2005. (incorporated by reference to the Company s Form 10-K for the year ended December 31, 2006)

4.6 Registration Rights Agreement dated April 15, 2005 between the Company and Amaranth LLC (incorporated by reference to Exhibit 4.3 to the Company s Form 8-K filed on April 19, 2005)

4.7 Form of Warrant issued to warrant holders of St. Jude Resources Ltd. (incorporated by reference to Exhibit 4.14 to the Company s Form 10-K for the year ended December 31, 2005)

4.8 Form of Option issued to option holders of St. Jude Resources Ltd. (incorporated by reference to Exhibit 4.15 to the Company s Form 10-K for the year ended December 31, 2005)

10.1 Summary of Executive Management Performance Bonus Plan (incorporated by reference to Exhibit 10.1 of the Company s Form 8-K filed on January 23, 2003)

10.2 Second Amended and Restated 1997 Stock Option Plan, effective as of April 8, 2004 (incorporated by reference to Exhibit 10.2 to the Company s Form 10-K for the year ended December 31, 2004)

10.3 Form of Indemnification Agreement between the Company and its officers and directors (incorporated by reference to Exhibit 10.3 of the Company s Form 8-K filed on January 23, 2003)

10.4 Employees Stock Bonus Plan amended and restated to April 6, 2000 (incorporated by reference to Exhibit 10(j) to the Company s Form 10-K for the year ended December 31, 2000)

10.5 Guyanor Ressources S.A. Stock Option Plan amended and restated as of June 15, 1999 (English translation) (incorporated by reference to Exhibit 10.35(a) to the Company s Form 10-K for the year ended December 31, 1999)

10.6 Amended and Restated Employment Agreement with Mr. Peter Bradford dated April 30, 2004 (incorporation by reference to Exhibit 10.7 to the Company s Form 10-K for the year ended December 31, 2004); Letter Agreement amending Mr. Bradford s Amended and Restated Employment Agreement dated February 3, 2005 (incorporated by reference to the Company s Form 10-K for the year ended December 31, 2004)

10.7 Amended and Restated Employment Agreement with Mr. Allan J. Marter dated April 30, 2004 (incorporation by reference to Exhibit 10.8 to the Company s Form 10-K for the year ended December 31, 2004)

10.8 Severance and Release Agreement between the Company and Mr. Allan J,. Marter dated October 13, 2006 (incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q for the quarter ended September 30, 2006)

10.9 Amended and Restated Employment Agreement with Dr. Douglas Jones dated April 30, 2004 (incorporation by reference to Exhibit 10.9 to the Company s Form 10-K for the year ended December 31, 2004)

10.10 Amended and Restated Employment Agreement with Mr. Bruce Higson-Smith dated April 30, 2004 (incorporation by reference to Exhibit 10.10 to the Company s Form 10-K for the year ended December 31, 2004)

10.11 Amended and Restated Employment Agreement with Mr. Richard Q. Gray dated April 30, 2004 (incorporation by reference to Exhibit 10.11 to the Company s Form 10-K for the year ended December 31, 2004)

10.12 Employment Agreement with Mr. Colin Belshaw dated June 17, 2006 (incorporated by reference to Exhibit 10.2 to the Company s Form 10-Q for the quarter ended September 30, 2006)

10.13 Employment Agreement with Mr. Thomas G. Mair dated February 8, 2007 (incorporated by reference to Exhibit 10.1 of the Company s Form 8-K filed on February 14, 2007)

10.14 Agreements between the Company and its outside directors granting them options to purchase Guyanor Class B common shares, (1) dated December 8, 1995, and December 10, 1996 (incorporated by reference as Exhibit 10.39 to the Company s Form 10-K for the year ended December 31, 1996), (2) dated December 9, 1997 (incorporated by reference to Exhibit 10.39(a) to the Company s Form 10-K for the year ended December 31, 1997), (3) dated December 8, 1998 (incorporated by reference to Exhibit 10.39(b) to the Company s Form 10-K for the year ended December 31, 1998), (4) dated June 15, 1999 (incorporated by reference to Exhibit 10.39(c) to the Company s Form 10-K for the year ended December 31, 1999), and (5) dated August 16, 2001 (incorporated by reference to Exhibit 10.11 to the Company s Form 10-K for the year ended December 31, 2002)

10.15 Agreement, dated November 16, 2001, between Bogoso Gold Limited and Prestea Gold Resources Limited for the purchase of Prestea mining lease rights and option payments (incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on March 6, 2002)

10.16 Guiana Shield Transaction Agreement with Cambior Inc. dated October 25, 2001 for the sale and swap of Golden Star s interest in Gross Rosebel and other properties (incorporated by reference to Exhibit 10.3 to the Company s Form 8-K filed March 6, 2002)

10.17 Mining lease, dated August 16, 1988, between the Government of the Republic of Ghana and Canadian Bogosu Resources Limited, relating to the Bogoso property (incorporated by reference to Exhibit 10.14 to the Company s Form 10-K for the year ended December 31, 2005)

10.18 Mining lease, dated August 21, 1987, between the Government of the Republic of Ghana and Canadian Bogosu Resources Limited, relating to the Bogoso property (incorporated by reference to Exhibit 10.15 to the Company s Form 10-K for the year ended December 31, 2005)

10.19

Mining lease, dated June 29, 2001, between the Government of the Republic of Ghana and Bogoso Gold Limited, relating to the Prestea property (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on March 6, 2002)

10.20 Mining lease, dated September 17, 1992 between the Government of the Republic of Ghana and Satellite Goldfields Limited, with letter dated April 25, 2002 from the Ministry of Mines consenting to assignment to Wexford Goldfields Ltd., relating to the Wassa property (incorporation by reference to Exhibit 10.26 to the Company s Form 10-K for the year ended December 31, 2004)

10.21 Mining lease dated June 29, 2001, between the Government of the Republic of Ghana and Prestea Gold Resources, relating to the Prestea Underground property (incorporation by reference to Exhibit 10.27 to the Company s Form 10-K for the year ended December 31, 2004)

10.22 Joint Operating Agreement, dated January 31, 2002, between Bogoso Gold Limited and Prestea Gold Resources Limited (incorporated by reference to Exhibit 10.25 to the Company s Form 10-K for the year ended December 31, 2002)

10.23 Memorandum of Agreement, dated March 14, 2002, among Prestea Gold Resources, Bogoso Gold Limited and others (incorporated by reference to Exhibit 10.26 to the Company s Form 10-K for the year ended December 31, 2002)

10.24 Letter agreement between the Company and Guyanor Ressources S.A. dated September 30, 2004 relating to sale of Gross Rosebel Participation Right (incorporated by reference to Exhibit 10.30 to the Company s

	Form 10-K for the year ended December 31, 2004)
10.25	Arrangement Agreement dated November 11, 2005 between the Company and St. Jude Resources Ltd. (incorporated by reference to Exhibit 2.1 to the Company s Form 8-K filed on November 17, 2005)
10.26	Executive Employment Agreement, dated July 1, 2002, between St. Jude Resources Ltd. and Bluestar Management Inc. (incorporated by reference to Exhibit 10.23 to the Company s Form 10-K for the year ended December 31, 2005)
10.27	License Agreement, dated June 28,2004 between Biomin Technologies S. A. and Bogoso Gold Limited (incorporated by reference to Exhibit 10.24 to the Company s Form 10-K for the year ended December 31, 2005)
10.28	EPCM Services Agreement, dated April 16, 2006, between Bogoso Gold Limited, GRD Minproc (Pty) Limited and GRD Minproc Limited (incorporated by reference to Exhibit 10.1 to the Company s Form 10-Q for the quarter ended June 30, 2006)
10.29	Medium Term Loan Agreement, dated October 11, 2006 between Ghana Limited, Cal Bank Ghana Limited and the Company (incorporated by reference to Exhibit 10.3 to the Company s Form 10-Q for the quarter ended September 30, 2006)
14	Code of Ethics for Directors, Senior Executive and Financial Officers and Other Executive Officers (incorporated by reference to Exhibit 14 to the Company s Form 10-K for the year ended December 31, 2005)
21	Subsidiaries of the Company (incorporated by reference to Exhibit 21 to the Company s Form 10-K for the year ended December 31, 2006)
23.1	Consent of PricewaterhouseCoopers LLP
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certificate of Principal Executive Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)
32.2	Certificate of Principal Financial Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

GOLDEN STAR RESOURCES LTD.
Registrant

By: /s/ Peter J. Bradford

Peter J. Bradford
President and Chief Executive Officer

Date: July 23, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

EXHIBIT INDEX

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