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MANAGEMENT DISCUSSION SECTION

Operator: Safe Harbor Statement

I will now turn the call over to Mitchell Caplan, CEO of E*TRADE Group Incorporated, who is joined by Jarrett Lilien, President and COO and Len Purkis, CFO. Mr. Caplan.

Mitchell Caplan: Thanks, everybody, for joining us this afternoon. Q2 2003 can be summarized in three words, validation, innovation and discipline. In our Q1 earnings call, I spoke at some length about the philosophy that has guided E*TRADE Financial for over 20 years. Our goal has always been, and remains, to leverage innovative technology, to provide superior financial products and services to our customers.

During our Q2, we experienced highly favorable market conditions. Interest rates remained low, fueling continued lending activity, and for the first time in over two years investors returned to the equity markets, driving a significant increase in brokerage transaction volume. Our diversified model enabled us to capitalize on these conditions. Our adherence to the core tenets of value and innovation helped us to transform opportunity into reward. And our disciplined management style produced changes that will help make us more efficient in future quarters.

I'm pleased to announce that, in Q2 2003, we produced GAAP earnings of $0.03 per share, which does include a charge of $76mm in restructuring and other exit charges, as discussed on last quarter's earnings call. On an ongoing basis, EPS equaled $0.14. Included in our ongoing earnings is a $7mm or $0.01 per share reserve taken in connection with possible remaining exposure in the MJK securities litigation. Exclusive of the MJK litigation reserve, operating earnings equaled $0.15. And our strong quarterly earnings allowed us to increase the bonus accrual for employees by an additional $0.01 per share.

In both our banking and brokerage segments, our commitment to efficiency and technological advantage helped produce excellent ongoing operating margins and income. And in both of our segments, we delivered pioneering products that have increased our market share, volumes, and customer satisfaction. We've often said that our efficient brokerage platform transforms incremental trade into bottom-line results. During Q2, transactions increased 41% from the prior quarter. This increase drove a $0.05 improvement in brokerage EPS from quarter-to-quarter. The positive impact of increased trading activity can be seen throughout our reported brokerage revenue lines, including commissions, principal transactions and net interest income. And the increased activity in the equity markets this quarter, that benefited our retail business, also produced positive results in our institutional trading and market-making businesses. These improvements illustrate the upside power of our brokerage business.

Innovations have strengthened our Active Trader value proposition. During the quarter, we grew our market share in this category and our Active Traders showed a 42% increase in trading activity over last quarter. Our "Power of 9" campaign continues to resonate well, particularly with the implementation of aggressive pricing on options trading and margin rates. And we expect continued market share growth as we launch new products and improve functionality in H2 of the year.

Today, we announced the addition of Jack Sandner to our team. Jack brings to the company over 20 years of experience as former Chairman of the Chicago Mercantile Exchange (CME). Drawing on this experience, Jack will help us to roll out new trading capabilities at E-minis, our electronically traded index futures, to our customers in the coming months. Our value proposition for Main Street investors is also resonating as well. Our Main Street customer trading activity increased 40% quarter-over-quarter. We gained share over traditional competitors, in part because we believe that in these uncertain economic times customers seek value and performance, which they've been able to find at E*TRADE Financial. Today, we announced our plans to bring the same value and innovation that we brought to equity investing, banking and lending to the mutual fund industry and investing. Working in cooperation with mutual fund families and regulatory agencies and within applicable regulatory standards, we intend to rebate 50% of the 12b-1 and shareholder service fees, that we receive from the fund companies, directly to our fund customers. By leveraging technology as our differentiator, we can take advantage of the increased scale we expect to create as a result of this initiative. We believe this program will accomplish three important objectives, including reducing the impact of fees incurred by fund shareholders, enhancing the attractiveness of fund investing, and increasing the number and average asset size of accounts at E*TRADE Financial. We plan to implement this initiative later this year.

In banking, we remained focused on maximizing the benefit of the low interest rate environment by offering excellent lending products, competitive pricing, and exceptional service. At the same time, we are also preparing for a rising interest rate environment and we continue our ongoing effort to widen net interest spreads while carefully managing credit risk. We approach widening net interest spread by prudently diversifying our asset portfolio and by growing transactional accounts to reduce costs of funding. We recently completed the purchase of $400mm in high FICO auto loans with a weighted average score of 754, and the acquisition of $100mm of high credit quality credit card assets with a weighted average FICO score of 705. In addition, we continue to grow transactional accounts. During the quarter, we launched several important product enhancements: a dramatically improved website, a total guarantee on the safety and privacy of our online banking services, and a quick transfer feature that enables customers to seamlessly move funds between E*TRADE accounts and between E*TRADE and other financial institutions. These enhancements helped drive deposit growth of $139mm during the quarter to over $9B in deposits. Transactional accounts grew by $102mm during the period and represent 52% of our total deposit base. In Q2 2003, as in Q1, continued strength of the mortgage market propelled prepayments to very high levels, driving down asset yields on our mortgage-related assets. Consequently, net interest spread for the quarter equaled 144BPS, an 8BPS decline over last quarter. So, although we are pleased with our spread widening initiatives, results were dampened by the effect of continued prepayment. Importantly, though, the pressure on net interest spreads was again more than offset by record performance in our mortgage business. Our mortgage business hit yet another milestone by originating a record $2.9B in loans during the quarter. As a result, the $4mm improvement in pre-tax income generated by the increase in mortgage production this quarter more than offset the $3mm decrease in net interest income, resulting from the 8BPS decline in net interest spread. Further, we are closing the quarter with a pipeline of $1.7B in locked loans, an increase of 42% over the pipeline of $1.2B at the end of our Q1. While we are certainly pleased with these results, we are preparing for rising interest rates by increasing purchase money production to protect against an eventual dissipation of refinancing volume. To this end, we introduced our “Mortgage on the Move” program last month. “Mortgage on the Move”, is the industry's first widely available portable mortgage product for purchase money customers. It is yet another example of E*TRADE Financial as a customer champion and innovator. We are pleased with the overwhelming media and customer response the product has received.

We also continue to grow our consumer finance business. Our RV and marine business produced loan volumes of $398mm during the quarter. In addition, we launched quick transfer functionality between home equities and deposits, enabling our customers to move their money seamlessly between accounts and we have continued to build out our auto and credit card offerings. As interest rates rise, mortgage volumes will decline. We are confident, however, in our ability to offset the related revenue and income reductions. In a rising interest rate environment, we have a greater ability to widen interest rate spread. Put simply, the diversification inherent in our banking model protects us as interest rates rise.

While the past quarter was a successful one for both of our business segments, we continue to approach our operations with rigor and discipline. To this end, we have taken a restructuring charge of $76mm this quarter. Of this amount, $14mm was in cash-related charges. We are pleased to report that we are ahead of schedule on these initiatives. Q2 charges included closure of our New York center, elimination of unprofitable product offerings such as Stock Baskets, E*TRADE Financial Advisor and Personal Money Management, and closure of 43 E*TRADE Financial target zones. As we mentioned in last quarter's earnings call, we intend to take an additional charge of approximately $45mm in Q3. During Q3, we expect to complete our restructuring that will include closure of our banking operations in Denmark, discontinuation of local market equity trading operations in Hong Kong, and consolidation within our Menlo Park, Rancho Cordova and New York facilities. Through these and additional steps, we expect to generate between $45mm and $50mm in annual savings beginning in H2 of this year.

From 1998 to 2000, the online brokerage industry experienced unprecedented growth in the number of accounts opened. During the past three years, declining equity values and diminishing levels of trading activity by retail investors resulted in the accumulation of accounts of diminimus value. We believe that such accounts, while of potential value, should be distinguished from those of current actual value. There are approximately 1mm of these accounts. Accordingly, effective this quarter, we have placed these accounts on inactive status. By doing so, we no longer incur operational costs to service inactive accounts and thereby, further reduce operating expenses. Consistent with this action, we are modifying our definition of an active account to include accounts with a balance of at least $25 or that have traded within the last six months. Although these accounts will no longer be reported as active, customers will be able to easily reactivate these accounts at a time of their choosing.

We continue to remain focused on revenue growth by expanding our relationship management program, which has already improved customer service and increased cross-sell. And we are committed to further enhancing our existing customers' experience and to creating and offering new and innovative products and services. During the remainder of the year, we will be launching improvements to many of our core products and deploying new value-added products.

Before Len reviews the numbers, let me address just a few important issues. We have made significant progress this quarter towards successfully resolving the MJK situation. As previously announced, we have settled the Fiserv (NASDAQ: FISV) litigation and have obtained third-party reimbursements covering that liability completely. The Wedbush and Nomura (NYSE: NMR) matters remain outstanding, and we continue to vigorously defend ourselves in these matters. We believe, however, that between the third-party reimbursements that we have negotiated and the $mm in legal reserves we booked this quarter, we have appropriate reserves to cover possible exposure in these matters.

Finally, in an ongoing effort to improve transparency in our business, we now show substantially more detailed information about our brokerage and banking operations in our quarterly press releases. Additionally, you will find new information around asset balances, account growth and account attrition, and, as a prelude to our transition to natural account expense reporting beginning in 2004, you will also note our breakout of compensation and benefits expense in our corporate metric section. Going forward, we also intend to provide monthly reports on key business drivers. Beginning in August, we will provide monthly daily average revenue trades or DARTs, margin debt balances, equity shares traded in our market-making business, mortgage and consumer loans funded, as well as account growth, active accounts and total assets for both brokerage and banking. We believe that through increased disclosure and transparency, we can continue to improve investors' understanding of the company and demonstrate the strength of our business model. We believe that we are on the right path here, that our core tenets are sound, our model effective, and our approach rigorous, and we want people to see clearly what gives us the confidence that we have in our business and in our future. Now, to Len.

Leonard Purkis: Thanks, Mitch. First the financial highlights. Cash and equivalents for the quarter totaled $882mm. Free cash totaled $452mm this quarter, a $50mm increase over our Q1. Free cash, as we define it, is a metric used by management in measuring business performance and represents cash held at the parent and excess regulatory capital of bank and brokerage. At the bank, net charge-offs fell to $7mm this quarter, down from $8.8mm last quarter. Overall, net charge-offs, as a percentage of average held for investment loans, declined from 65BPS to 49BPS, driven by an improvement in our consumer finance portfolio net charge-offs. Our allowance for loan losses grew by 12% from $29.2mm to $32.7mm quarter-over-quarter, as we provisioned in excess of our net charge-offs. Our reserves now represent 140% of total non-performing loans, and that's a 21% increase over last quarter. As a percentage of pending health for investment loans, the reserve remained flat with Q1 at 52BPS. Our commitment to strong credit is manifest in the credit quality of our borrowers as measured by weighted average FICO scores. Specifically, FICO scores for our total loan portfolio averaged 730, up slightly from 729 last quarter, with our mortgage and consumer portfolios averaging 725 and 732, respectively. E*TRADE Bank also remains well capitalized, as defined by the Officer of Thrift Supervision (OTS) with Tier 1 and risk-based capital ratios of 5.94% and 11.8%, compared to 5.9% and 12.2% respectively at the end of our Q1. Finally, as you will see in our expanded metrics table, we now offer a DARTs metric, which includes professional, domestic and international revenue trades. This metric differs from our daily average transaction metric, which we report for the last time this quarter, in that our transaction metric included both revenue and non-revenue trade executions, while excluding professional and other commission-based revenue trades. Although there's absolutely no economic impact with this change, we believe this improvement offers a more comparable commission per trade measure. With this and the other additional metrics provided, we feel investors have the tools necessary to understand the business and the drivers that affect our top and bottom lines.

Next, our revenues. Total net revenues for our Q2 totaled $381mm, an 18% improvement over last quarter and a 21% improvement over same quarter last year. The increase in revenues quarter-over-quarter and year-over-year is a result of growth in both brokerage and banking revenues. Brokerage revenues for the quarter totaled $223mm, a 26% increase from last quarter and a 4% increase from same quarter last year. This increase is the result of a significant growth in trading activity during the quarter in both our retail and market-making businesses, improving commission revenues by 41% and principal transaction revenues by 39%. Our banking revenue for Q2 totaled $158mm, up 9% over the last quarter and up 57% over same quarter last year. This increase is related to the growth in both gain on sale of originated loans from our direct-to-retail mortgage and consumer finance origination businesses and gain on sale of loans held-for-sale and securities from our correspondent mortgage business and partially offset by a decline in net interest income. The decline in net interest income comes as a result of accelerated prepayments in our mortgage portfolio, reducing our net interest spread over the quarter.

Now, for the expenses. On the expense side, we saw a 21% and a 31% increase in G&A expense quarter-over-quarter and year-over-year, same quarter, respectively. This increase is largely attributable to the $7mm MJK litigation reserve. We kept cost of services largely in check this quarter, seeing only a 9% increase over the last quarter on an 18% increase in net revenues over the same period. The $15mm increase over the quarter is largely related to compensation of benefits, more specifically bonus accrual and variable compensation driven by the mortgage and market-making activity. In selling and marketing expense, we saw an 8% increase quarter-over-quarter and a 5% decline year-over-year, same quarter. Half of the increase was related to variable costs associated with our institutional business and the other half of the increase was in support of our highly targeted marketing campaigns.

With effective marketing campaigns like the "Power of 9" supporting our strong value proposition, we believe we have, again, this quarter gained market share in online trading. The operating leverage in our brokerage business is particularly apparent on a segment basis. Brokerage operating expenses totaled $259mm this quarter, including $68mm in restructuring and other exit charges and $7mm in MJK litigation reserves. Excluding these charges, our brokerage operating costs totaled $183mm, only a 9% increase over last quarter on a 26% growth in brokerage revenue. Importantly, we were also able to control operating costs in banking, limiting the total increase to 15%, including $7.7mm in restructuring and other exit charges. Net of restructuring charges, bank operating costs grew by 9%, in line with an equivalent growth in revenue. In non-operating income and expense, as you will note in the non-operating income section of our P&L, it includes the $22mm net gain on investments.

At the end of last quarter, E*TRADE Group held a 36% ownership interest in E*TRADE Japan, which was accounted for under the equity method. On June 2, 2003, E*TRADE Japan merged with Softbank Investment Corporation to form a new entity called SBI. Upon closing the merger, E*TRADE Group owned 19.8%of SBI. We have determined that we no longer exercise significant influence or control over the new entity and we should therefore account for our investment in SBI under the cost method, as an available for sale equity security. In accordance with GAAP, we have recognized a $29.5mm gain on investment based on the fair value of the SBI shares we received as of the merger date. The fair market value of our interest in SBI, based on the yesterday's closing price on the Tokyo stock exchange, is $255mm against a book basis of $84mm. This investment is part of a multi-step process to maximize shareholder value.

In summary, the company reported Q2 net income of $13mm or GAAP EPS of $0.03, which, again, includes $76mm in facility restructuring and other exit charges and $22mm in net gains on investments. Net income from ongoing operations totaled $50mm or $0.14 per share from ongoing operations. The reconciliation of the $0.04 quarter-to-quarter sequential increase to EPS from ongoing operations is as follows: First, e-Transactions increased 34,000 this quarter, driving increased earnings of $0.035 cents in our retail trading segment. Additionally, we gained an incremental $0.015 from our institutional and market-making businesses. Secondly, strong banking results generated an additional $0.01 from banking. Thirdly, in total, incremental contribution from banking and brokerage was $0.06 per share. And netted against these results is a $0.02 adjustment for the MJK litigation reserve and bonus accrual.

For our guidance, in light of our performance this quarter and the accelerated benefit we expect to see from our restructuring, we are raising our guidance for the year to between $0.52 and $0.57 per share from ongoing operations. On the reported basis, the equivalent will be EPS of $0.22 to $0.27 including restructuring charges. Incremental revenue from increased trading activity, we experienced this quarter, dropped largely to the bottom line and demonstrated the leverage in our model. The combination of this leverage and the benefits of our restructuring plans were the drivers behind increasing our guidance for the year, but there obviously remains uncertainty about the economic recovery that could impact results.

We are pleased to note, as a result of the continued strength of the markets, our DARTs for the first 15 days of July equaled 138,000, that's up 18% over Q2. The leverage of our model is validated in our results and we have confidence in our ability to manage the uncertainties of the economy. With that, we'll now open this call up to answer your questions.

QUESTION AND ANSWER SECTION

Operator: Our first question is coming from Michael Vinciquerra of Raymond James & Associates.

<Q>: Thank you and good afternoon. First question is just a clarification for Len. I just want to make sure that the $22mm gain is considered a non-operating item and, therefore, it is not part of your operating earnings of $0.14 for the quarter. Is that correct?

<A>: That's correct.

<Q>: Ok. And then, second of all, I just wanted to get a feeling from Mitch and, obviously, you're going through some significant cost savings right now and it seems like the exercises are going to produce better results for H2. How much of the improvement in your guidance, number 1, is coming from the acceleration of the cost savings you're going to realize? And, additionally, are there any other opportunities you see for cost savings beyond what you currently have planned maybe for the next 12 to 18 months or is this pretty much going to take you to where you want to be?

<A>: A couple things. First of all, Mike, as you look out at H2 of the year, Jarrett, as you know, has been driving the restructuring initiative and he has this a bit ahead of plan, as we talked about. So, we'd expect to see somewhere in the neighborhood of $0.03 to $0.035 improvement in the next two quarters in our earnings as a result of the restructuring charge. And then, once we enter into next year, you would expect to see about a full $0.02 per quarter or $0.08 a year. And that's in connection just with the restructuring charge. What it does, more interestingly, I know we've talked forever about where is breakeven, as you look at your brokerage business and I think you and I have talked consistently about a breakeven for the brokerage segment at around 63,000 transactions and now 63,000 DARTs a day. As a result of the restructuring charge, what we are now at is about 50,000. So, as long as we are doing 50,000 DARTs a day, we are in a position that we are at breakeven for our entire brokerage segment and it puts us in also is you see each additional 10,000 DARTs, again, we will earn about $0.015 to the bottom line as we talked about and validated this quarter through the model. That's the first part of your question. The second is, there are a host of other initiatives that are also in the place, independently of the restructuring charge that Jarrett's driving, around technology and otherwise that we will continue to apprise you of as we go through quarter-by-quarter in terms of cost savings.

<Q>: Okay. Thank you. I'll jump back in line.

Operator: Thank you. Our next question is coming from Richard Repetto of Putnam Lovell Securities.

<Q>: Yes, hi guys. Congrats on a nice quarter.

<A>: Thanks Rich.

<Q>: First, I guess a follow-up question on the guidance. The $0.52 to $0.57 and you back out $0.24, you get $0.32 to $0.33 for H2 of the year, and I assume that your $0.03 to $0.035 savings is for H2, that's not per quarter.

<A>: That's correct.

<Q>: So what in this -- you obviously have a positive outlook from a $0.14 Q2 here that EPS is going to incrementally increase, even with a potential slowdown in trading here in the summer. I guess, so what's driving the optimism, I guess?

<A>: Hi Rich, it's Len. I think in the operating guidance here there are three things that we really look at that'll be driving it. One is the current -- and we're talking about current July market conditions that continue through the rest of the year. Secondly, the mortgage business volume is maintained through the end of the year, and there's no major growth as we enter Q3, but we do have a pipeline of $1.7B. And the third part is the restructured benefits kicking in H2 for the $0.035. So, the low end of the range, what we were looking at that there is the magnitude of sell through in both transactions and the mortgage volume.

<Q>: Okay. And then my one follow-up would be, on now you've went to a new classification on the trades from transactions to daily average revenue trades. There's some number around, a little bit less than 30,000, it looks like, free trades or trades that weren't accounted for as revenue trades before. Could you explain what that was in the prior quarter? You reported 82,000 trades last quarter. Now, if you back out from the accounting from what you reported here, it seems like we can account for about 55,000 of that as revenue trades, if you look at what you've disclosed. So, what's the gap here? (Is it) trades given as promotion or mutual fund trades or what?

<A>: I think you've got a couple things in there, Rich. One is before we were, as we've always done, we were reporting on transactions, and some transactions don't have revenue, or didn't have revenue attached to them. So, we also, though, at the same time didn't include revenue trades from the professional segment. And as we committed to everybody, everything is under review these days and our goal is to come out with more metrics and more clarity in our metrics. And we felt that going to where we've gotten to now with DARTs was just a better apples-to-apples comparison, so you and the rest of the investor community can really compare us to our competition, which, as you know, is something we're inviting everybody to do. So, hopefully that explains it, but, as you'll see, it comes out pretty much the same number.

<Q>: Well I just, but the trades that weren't revenue trades last quarter, they were free trades given as promotion or…

<A>: No, no, not free trades. It's just if you were to come in and do a trade and it took you two executions, that was two transactions, whereas that was one revenue trade.

<Q>: Okay. I'll get back in the queue as well.

Operator: Thank you, our next question is coming from Colin Clark of Merrill Lynch.

<Q>: Hello, everyone. Can you hear me?

<A>: Absolutely.

<Q>: Great quarter.

<A>: Thank you Colin.

<Q>: I'm trying to get a better sense of your strategy to drive higher bank net interest income, particularly if rates stay low and mortgage revenues decline as re-fi activity declines. You mentioned your current spreads 144BPS. It's been under pressure the last couple of quarters. And you previously had a spread target range of 160 to 190 in 2003. Just interested in your thoughts on, is that range achievable in the current environment, especially if rates stay low?

<A>: Well, let me start and then I'll have Arlen sort of follow up. What I would tell you is that as we've just looked at guidance at a very high level, again, we're looking at the guidance for the company as a whole and we're breaking it down by segment between bank and brokerage. So, what I think you can expect to see within the banking group is that to the extent that you still have extraordinary performance in your mortgage business, what will be driving it, particularly to the

extent that it's driven by refinancing and not purchase money mortgage, as you wellknow, is the low interest rates and that will generate prepayments which is going to continue to put pressure on spread. Our goal has always been to be in a position where in either direction you had a dollar-for-dollar offset, so that as mortgage was stronger you were at least making the same or more in the mortgage earnings that you were losing in spread, which is what happened this quarter, you know, we outperformed to the tune of about $1mm. When interest rates begin to rise, what you would expect to see is refinancing dissipate and our spread beginning to widen and then you would look for, again, the opposite, which is that spread begins to compensate and outperform what's happening with respect to your mortgage business. That said, I would tell you we are continuing to make efforts to widen spreads. We're doing it by looking at this asset diversification. We're doing it very slowly in order not to take what we perceive to be any significant credit risk. And we at the same time are looking to continue to lower our cost of funds with respect to our transaction costs. So, you continue to take two steps forward with respect to spread widening, but, inevitably, as long as the mortgage business is this strong, it's going to impact you on spread compression. And I think in order for us to get to our stated goal, as you've said, of 160 or 200, you will only get there when you begin to see some dissipation in the results of what you're seeing in the mortgage business. Arlen.

<A>: Ultimately, it's focused on credit quality that we've said over and over again, which will be the strongest limiting factor in terms of the speed at which we get to 200BPS. We're confident that we're going to get there, and we keep taking moves that are moving us in a positive direction. The issue really is, just in terms of optics and final reported numbers, is that the positive direction is being mapped by the negative brought on by the prepayments. You know, so for example, last week as we diversify into a greater level of consumer finance assets, we're helping our spread, we're improving them. You know, we're constantly looking from a balance sheet optimization point of view as to what to do. But when you have the prepayments going the other way, it hurts you. So, for example, when we were talked at the end of last quarter's call, everyone was expecting to see a 20BPS improvement based on the Ganis acquisition and instead we improved 12BPS, it was because we went backward 8BPS by virtue of the prepayments on the mortgage side. So, it's something that as we focus on credit, we just do things slowly and methodically. And one of the things that we've done is right literally at the end of the month. We took our first step into credit cards when we bought a portfolio of just under $100mm to increase spread. Now, again, focusing on the credit quality, we have borrowers with very high FICO scores. So, it was consistent with our overall strategy. It's just a question of time.

<Q>: Okay. So if refinancing or if prepays slow, let’s fast forward a couple quarters, and prepays slow significantly, but rates stay relatively flat, does that make it challenging to drive your spreads higher or do you have some plans in place in that type of scenario?

<A>: We do have plans in place. We do a lot of scenario planning. It's not something that we're going to discuss now, but we do look at it in the various different interest rate environments.

<Q>: Okay. Great. I'll get back in the queue. Thanks.

Operator: Thank you. Our next question is coming from Charlotte Chamberlain of Jefferies & Company.

<Q>: Hi. I was wondering, are you planning to put out some historical numbers on DARTs so that we can build a database to better forecast based on the stuff that you're planning to give us out monthly?

<A>: I suspect that if you look at what we have sent out, it is there with historical back up now for six to eight quarters. So, it's in what we've already released.

<Q>: Okay, so you're not going back a couple of years or anything like that so we could kind of track it during the bubble as well?

<A>: No. I think it's been over the last -- we think we've got it over the last six quarters.

<Q>: Okay. And then, also, can you give us an idea of what proportion of your mortgages were fixed rate vs. ARMs over this last quarter?

<A>: Yes. We are now in a position where – are you're talking about originated or on balance sheet?

<Q>: Originated. And which ones you keep?

<A>: Well, so let's talk about what we keep first because I think that's what's relevant, which is what's on balance sheet. We're now in a position where on the balance sheet, we're at about 50% fixed and 50% variable. However, on an incremental basis, over the last quarter or two quarters, we have probably been about 95% variable in terms of what we've added to our balance sheet. So, we have strategically moved away from fixed and we added almost exclusively variable on an incremental basis.

<Q>: And originations, what what's the breakdown?

<A>: Arlen will do that.

<A>: The breakdown is, in this absolutely low interest rate environment it's been consistently above 90% in terms of fixed rates.

<Q>: Okay. Thanks.

<A>: Sure.

Operator: Our next question is coming from David Marsh of Friedman Billings & Ramsey.

<Q>: Hi, guys. This is a pretty good quarter here. Couple of questions. The cash portion of the charge that you expect to take in the next quarter, do you have an estimate for what that will be?

<A>: This past quarter, the charge, we took about a $76mm restructuring charge, and I think we said it was about $13mm or $14mm in cash. Next quarter, it will be, again somewhere between $12mm and $14mm in cash.

<Q>: Okay. And on the portfolio of loans that you recently acquired, about $500mm total loans, what do you expect that to do for your net interest margin going into Q3?

<A>: A guess, again, again, now Arlen is looking at me because he wants me to be careful. But the expectation is you'd hope it would widen your spread by 3BPS or 4BPS, and it will, it will move us in that direction. Ultimately, where our spread will come out at the end of next quarter, again, will be driven by what's happening in the market refinancing business.

<Q>: If yields, if you'll indulge me one more follow up, if yields were to stay around about where they are right now.

<A>: Yes.

<Q>: Do you have any sense of how much you could grow NIM in Q3?

<A>: If yields were to stay where they are right now, you would hope that you can continue to expand them 10BPS or 12BPS. But, I think that would depend entirely, again, upon what was happening in terms of the refinancing market. For the moment, as we've looked at the first 15 days of July, again, it's interesting that we've seen transactions as strong as we've seen them and DARTs up 18% over last quarter for these first 15 days. Same is true on the fixed income side, we have actually seen a little bit of the slowing in the prepayment, which I think will be helpful and I think really what we have to wait to see what happens is in terms of the mortgage business and the volume there.

<Q>: Okay. Thanks.

<A>: Sure.

Operator: Thank you. Our next question is coming from Justin Hughes of Hovde Financial.

<Q>: Hi, it's Hovde. Question for Jarrett primarily. First of all, congratulations on the quarter. Excellent execution.

<A>: Thank you.

<Q>: I was wondering on the professional segment, you're showing it on revenue per trade basis, but isn't that still priced on a per-share basis?

<A>: Yes, part of the business is based on per share, and part is, the short answer is we've got it split on where some of it goes. Some of it is within DARTs, and the rest is in -- where is that now?

<A>: In principal commissions.

<A>: In principal commission, thanks.

<Q>: Okay. Well, if somebody executes a trade and you charge like $0.015 a share, it's still showing up as a DART and then a commission, so we're backing into something of a revenue per trade, correct.

<A>: That's right.

<Q>: Okay. Second of all, it seems like pricing is getting more and more competitive in that professional segment. Some people are going as low as a half a penny per share, from some releases last week. I am just wondering, how competitive is that segment and are you getting pricing pressure?

<A>: Well, that segment has been -- this is Lou Klobuchar -- that segment has been competitive for quite a while now. Particular pressure was on it as customers started to retreat from it in a weaker market. We've actually seen a pretty significant pickup in volumes there and seen it strengthen a bit, so we're not overly concerned at this point. We think that we've got our cost structure right to price aggressively and very competitively in that business and intend to continue to grow market share there as well.

<Q>: It does look like you grew some market shares as compared to the TradeStation (NASDAQ: TRAD) numbers, yesterday. Is that what your numbers are telling you as well?

<A>: Yes. And, again, in keeping with the kind of things that we're seeing moving into July, we feel very good about that entire space.

<Q>: Okay. Thank you.

<A>: A part of it, Justin, was, and I think you know this from having discussed this with us in the past, we wanted to clean that whole process off, before we started including it in DARTs. Because I think what you're really getting at is that we had a series of people, or investors, who were trading through us with respect to TradeStation, and our view was it was too competitive and not profitable. And so we have eliminated them from trading with us and as a result then you've seen some volatility in the transactions or DARTs coming from that group. But we're confident now that where we are, there's less pricing pressure and that there will be more consistent growth in terms of quarter-to-quarter, as you look at that segment.

<Q>: Okay. Thank you.

Operator: Thank you. Our next question is coming from Nick Spar of Trefouley & Company.

<Q>: Hi, guys. Wonderful quarter.

<A>: Thanks.

<Q>: Question on cost cutting. What round do you think you're in right now? You mentioned earlier on the call that you're getting about $50mm this quarter. Do you have a goal for next year? And, also, maybe give us some color on what items you think now have the most fat cut?

<A>: We haven't really talked about next year, yet, so I'd rather hold back on that. But what I can tell you is, I think the most interesting way to look at it isn't necessarily fat to cut, it is that we are continuing to try to do things with respect to our back office operations and using technology to lower the cost of that process. So, there are a couple of ways in which we can look at that. The first is on the brokerage side of the house. We are about 80% of the way through the process of ensuring that we are on one platform across our entire brokerage segment. And so there's still more to do there in terms of lowering our cost. The next step is to be able to have the bank in that same exact position and they're probably about 50%. So, as we, for example, have added other businesses like our consumer finance business around marine and RV in Southern California, you want to integrate that and get that on to one platform. The goal as we get through that and enter into 2004 would be in a position of trying to put all of that together on one global platform, which, again, we believe could add some significant cost savings. But probably the most important thing is once Jarrett and I and the team are through next quarter, with respect to this last restructuring charge, we have no more charges contemplated after that. And it is entirely based on just continuing to look for these efficiencies through operations by leveraging technology.

<A>: And just adding a little bit too because the question has sort of been asked twice the same way, are there more efficiencies out there after this and, as Mitch said, there's nothing that we see out there that's going to require a charge after this. But there are more efficiencies to get in the business and we are doing some things in our back office. We're doing some things with technology. We're really putting together a lot of the operations between bank and broker and there are other efficiencies that we've got on our agenda to find in the business and realize.

<Q>: Okay. Can you sort of -- have you put a price target or a guess on, once you've got one global platform, sort of the efficiency, the savings you'll get from that?

<A>: No. We'll do that as we start to look at next year.

<Q>: All right. Thank you.

<A>: Absolutely.

Operator: Thank you. Our next question is a follow-up from Richard Repetto from Putnam Lovell.

<Q>: Yes. Hi, guys. First I want to correct myself, H2 guidance is 28 to 33, if you back out the 24 from the beginning. The follow-up question, though, on this new "Mortgage on the Move", I just want to see, can you give us a little bit more color? I know it's got a lot of publicity and a lot of attention out there, but can you give us some quantitative on the results that you've seen?

<A>: Rich, it's Arlen. It really is too early to tell. I will give you a couple of bits of information that I think you'll be happy with and we're very happy with. First of all, when we first did this things like call volumes at the mortgage company increased by like 300%. Lead volume went up by 350%. And what we have found over time is, over the six weeks that it's been since we've launched this product, is there's been an incredible amount of interest in the product. But it's one of those, because it's a purchase money product, it's something that takes longer time to ramp up. It's not like you make a decision and you close it. What I can tell you is that our daily pre-qualification letters for purchases, which is something that someone does when they're going out to buy a house, all of a sudden, as the result, went up by 75%. We're seeing really huge increases throughout the mortgage company and even if the product does okay, we've had the additional benefit of putting the mortgage company on the map. I mean, in this a six-week period of time, we've had 500 media touches. This is being talked about in all circles, not only within other banks, but within bankers associations, in the secondary market, we've had meetings with Fannie (NYSE: FNM) and Freddie (NYSE: FRE) and the Bond Market Association talking about development of the secondary market. So, it's still in its infancy, but we're really amazed by the pickup that we've felt at the mortgage company from it.

<A>: Another thing to look at, Rich, it's interesting, I was talking to Matt Geary who, as you know, runs the home mortgage business and works directly with Rob Burnaby on the direct retail mortgage originations. And Matt's comment to me was, we are just now beginning to see the impact of the "Mortgage on the Move" product in the last five or six days because since Greenspan has been speaking and you see rates beginning to backup a little for the first time, you see the locks coming through because people recognize the value. So, they're saying this may be the time when interest rates are going to start to rise and the value of this product is really relevant to me, as opposed to thinking that mortgages will be declining. So, it will be interesting to see the sort of volume that we experience in the next 10 or 12 or 15 days based on this volatility we've been seeing around rates in the marketplace, so a little bit more to come. The other thing which is interesting as a side note that Arlen really is touching on is that, if you look at the drivers of profitability of the mortgage business, it's margins and our margins have been pretty consistent in terms of what we're making on the sale of our direct to retail mortgage business. And the other is the cost of driving that business. And as a result of the "Mortgage on the Move", we've been in a position where the PR has been so great that our cost of marketing to drive that volume has dropped significantly in the last 30 days and is helping drive some of the profitability at the mortgage company. So, there's been a sort of a side benefit, which Arlen is touching on that I don't think we expected to see when we began this process.

<Q>: Super. Thanks, guys.

<A>: Sure.

Operator: Thank you. Our next question is a follow-up from Michael Vinciquerra of Raymond James.

<Q>: Thank you. Two things. This is for Arlen. On the portfolios that you bought, can you give us a little more detail on the credit card side? How is it structured? Did you simply buy some securities on the credit card side? Do you own the accounts? Are you servicing those, that type of thing?

<A>: Well. We actually bought the accounts. We can't disclose, by virtue of our agreement, who we bought them from. They're very high credit quality. They are portfolio with just under a

$100mm, where we made sure and scrubbed through the entire thing that there are zero delinquencies upon our purchase. The weighted average FICO of the balances themselves are 705. The weighted average FICO of the accounts themselves, believe it or not, are 740. So, as we develop the balances in these accounts, which you're going to see, means you're going to see the weighted average FICO go far. And these are customers that we own. We bought them from a company that there were no other connections to the customer other than these accounts. So, we own the customer. And it's perfectly consistent with what we've been trying to do as a company, which is develop customers and then cross-sell them. So, this is our first foray into this business in a bigger sense. In addition, we are not doing the servicing on these. They're being serviced by the largest credit card servicer.

<Q>: Okay. And I find it interesting though that the FICOs on these loans, which are completely unsecured, are lower than all your secured loans in the auto and RV, but apparently you're comfortable with the credit quality, so I'll take your word on that one. And then the last question is just for Lou on the market-making side, improvement in revenue captured in the period, I'm just curious how much of it -- it looks like some of it must have come from the shift away from the bulletin board shares where you probably get much lower revenue captures if nights are an indication of afternoons was correct. Is that what's going on or is there any other thing that you see that could improve your revenue capture in the market-making business in future periods?

<A>: Yes. It's actually a couple of things. Clearly, with the re-engagement of the retail investor in Q2 we have seen additional volume. We've seen some additional volatility in the core stocks that we trade, the big listed and a little of counter names, so we would have some lift as a result of that alone. But then you see that we report, as well now, the percentage of bulletin board stocks that we trade, and, you're absolutely correct, as that mix changes we get lift from that as well. I can't attribute really what percentage of the lift came from each one of these respectively, but they were both important. Bulletin boards are really a very small fraction of the revenue capture we get on larger listed and over the counter stocks.

<Q>: All right. Thank you.

Operator: Thank you. And our final question will be coming from Colin Clark of Merrill Lynch.

<Q>: Hi, guys. From what I understand E*TRADE's mortgage business has a fairly variable cost structure. I think that headcount is somewhere around 500 employees, maybe more. Hypothetically, if mortgage revenues were to drop in half, let's say, by Q1 of next year, how much and how fast could you reduce the mortgage cost base to offset that revenue decline?

<A>: So, let me give you a couple of data points. The first is the actual headcount now is about 700. And if you look in the reams of information that we are now providing you about the business from both the banking and brokerage and corporate side you'll see one of the big areas of growth for us, I think, around headcount is also considered a temporary and a consultant or whatever. That really isn't a consultant. It's really temporary help and it is hiring exactly that, staffing up for the mortgage business so that we are in a position of having that real variability. And Rob Burnaby and his team have been preparing for about 18 months or longer for this inevitable period which is coming, it just hasn't come yet. And so they have plans in place and they track exactly what's happening based on interest rates and staff up or down right now based on what's going on in the marketplace. And their expectation would be to take the variable expenses, which are probably 80% of their operating costs, and the more that we put their back office on the rest of the company, the more it becomes variable and just drop it based on the volume we're experiencing in the mortgage business.

<A>: I can sort of add to that too. We've had a good learning experience on the brokerage side where we've seen things be very hot through 2002 and then cool off quite a bit. And we've been able to stay in front of that and actually grow profits in a period of declining margins. We're

applying that learning to the mortgage company and already we spend a lot of time with the mortgage company figuring out and contemplating what are the steps that we're going to take when things cool down so we are ahead of the game. And one of the things Arlen has touched on already, but one of the focuses is that shift from the re-fi to the purchase money options, which is a part of the market that we're expecting to see to continue to be pretty good even as interest rates increase. And a product like "Mortgage on the Move" is a good example of something that we're already doing to prepare for that next part of the cycle.

<A>: Yes. And just one last thing is that we're also able to move, as interest rates rise in the main mortgage markets, the first mortgage market slows down because of re-fis. That's also a time when typically you'd expect to see home equity loans increase, so that we can simply move certain groups of people from the first mortgage desk over to the home equity desk. In addition, we'll be co-locating the mortgage business with the Ganis boat and RV business later in the year and when we do that there'll also be some natural synergies between the companies and the ability that when things slow down we can move people over from one part of our business to the other.

<Q>: Okay. Great. And just one follow-up to that, what percent of your origination -- I'm not sure if you've answered this, but what percent of origination on business is purchase vs. re-fi at present?

<A>: Purchase vs. re-fi, it's been about consistently, and remains about, 10% purchase right now. But I will tell you that even though it's been consistently around 10%, our purchase volume generated by our mortgage company almost doubles in Q2 over Q1. So, that's part of our strategy to ramp that part of the business up. It's masked in terms of percentage just because the volume is so great, but in terms of the absolute numbers, they're definitely moving the way we'd like to see them.

<Q>: Okay. Great, thanks.