MANAGEMENT DISCUSSION SECTION

Mitchell Caplan, Chief Executive Officer

Thanks, everyone, for joining us today.

The past several months have been exciting for the industry and for E*TRADE Financial as a company. We have begun to see major movement in industry consolidation and the market clearly is indicating that the movement benefits all players in our space by putting the spotlight on the shareholder and the customer value within the financial services arena.

Without question, we expect further consolidation to occur. This includes consolidation inside and outside of the on-line segment of the market. While we intend to be a part of that consolidation, we will continue to demonstrate on a standalone basis that the value we're creating through the efficient use of technology, economies of scale, and an integrated infrastructure builds a powerful and profitable franchise.

Today, I'm delighted to discuss the strength of our second quarter results. We continue to deliver solid performance with our integrated model throughout various market conditions. Our results announced today reflect a second full quarter performance of the company under our new organizational structure. As you know, in January, we moved to retail and institutional from a bank and broker structure in order to more effectively align the business with the unique needs of our individual customer segments.

This move forced us to transform the way we think about the day-to-day business and the way we leverage our core infrastructure to maximize the value of a customer relationship over time. By linking our retail and institutional segments through our core retail customer relationships, we are able to generate greater value across investing, trading, banking, and borrowing relationships than we clearly could in operating standalone businesses in these areas. As a result, we are able to reward customers in the form of price, service and functionality as they broaden and deepen their engagement with E*TRADE Financial.

Compared to this time a year ago, we have made steady progress in executing on this strategy and the results confirm our success. In the second quarter, our model was again tested by the headwinds of a soft trading environment and interest rate volatility. Through the multiple points of leverage across our customer relationships and through the integration between our segments, we generated strong second quarter results.

Segment income grew to $139 million from $135 million a year ago, an annual increase of 3%. However, the consolidated results somewhat masked the growth we continue to achieve in our retail segment. Income in the second quarter from our retail segment increased 13% over the year-ago period, despite a 6% decline in commission revenue. We delivered this growth in retail earnings as we continued to benefit from an increase in non-commission-related revenue. Retail commissions represented just 19% of total net revenue in the quarter, down from 21% a year ago.

As we continue to drive greater customer engagement across a broader set of products we are seeing growth in client assets, including cash, as well as broader lending relationships. This growth is expected to be a key driver of further growth in net interest income. As evidence of this, consolidated net interest income in the second quarter grew 35% year-over-year. We are now in a place through this integration and our ability to more effectively monetize customer cash and borrowing relationships where total net revenue is up year-over-year and 81% is from sources other than retail commissions.

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As we focus on efficiency and execute on our strategy, this requires constant diligence and discipline to make sure we deploy the right resources against the greatest opportunities. As a result, we continuously evaluate all of our businesses to assess their ability to either create leverage within or gain leverage from our core retail customer relationships. To that end, we made the strategic decision to exit two businesses this past quarter. These businesses include our proprietary and hybrid trading business within E*TRADE Professional, as well as our RV and marine loan origination and servicing business.

We'll retain the agency portion of E*TRADE Professional and expect to keep the existing RV and marine loans on balance sheet as they've been a well-performing asset for the portfolio with an attractive risk-adjusted spread. The net effect of exiting these businesses is an improvement in our consolidated operating margin of 300 basis points in the second quarter of this year and 500 basis points in the year-ago quarter.

This action, in combination with our continued focus on prudent expense control, has accelerated the achievement of our profitability and return targets. Through this acceleration we are now closer to our goal of a consolidated operating margin of 40% and a return on equity of approximately 20% in fiscal 2006. Our ability to create value for shareholders while enhancing our value proposition to customers continues to differentiate E*TRADE Financial.

As we broaden our relationships with investing customers we are able to link our segments through growth in cash and borrowings. This structure affords us greater strategic flexibility in the marketplace as we are able to focus on creating a value proposition that attracts, retains, and rewards customers, not just through trading relationships, but across investing, banking and borrowing relationships as well.

I'd like to turn the call over to Jarrett now to talk about some of the things we have done operationally to execute on our strategy.

Jarrett Lilien, President and Chief Operating Officer

Thanks, Mitch.

As we continue to execute on our vision, we focus on creating value in each of our products and solutions on a standalone basis and then enhancing that value through integration. As we look across our trading, investing and lending offerings, we have made and continue to make significant progress and drive strong results, all while investing for the future.

So first let me discuss progress in our investing solutions. Total client assets increased 10% over the same period a year ago, with total customer cash up $800 million. Growth in customer cash within the system, and more specifically in the Sweep Deposit Account, continues to benefit our bank balance sheet by reducing the overall price sensitivity of our liabilities. As Sweep cash grows and it becomes a larger portion of our overall liability mix, it helps us to widen the spread. We have seen a strong growth in cash balances as we have begun to focus more intently on the value of cash in our model over the past year.

Of the total growth in cash, we have seen the strongest increase in those balances related to an investing customer, which, as a subset of our total customer cash, grew by $1.3 billion over the past year. This shift in our deposit mix continues to be a part of our strategy as we seek to drive the strongest growth in cash related to a trading and investing relationship, which is our lowest cost funding source for the balance sheet.

We expect this to continue to reduce overall funding costs for the bank and drive wider net interest spread over time. During the quarter, we increased bank average interest earning assets by over

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$2 billion, with a net interest spread widening by 2 basis points to 222 basis points. This increase was the net result of a 22 basis point improvement in asset yields, offset by a 20 basis point increase in liability costs. By investing customers' cash through the bank's balance sheet, we have succeeded in widening spread despite the fact that we were in an environment this past quarter where yield curves flattened. We expect to grow the bank's balance sheet throughout the second half of the year as we continue to generate a risk-adjusted return in excess of our 20% benchmark.

Turning to trading, we have made improvements to our value proposition and overall customer experience. We improved price a quarter ago by creating a segmented pricing structure that rewards customers for either trading or bringing in assets. We enhanced service by increasing the number of relationship managers and adding service specialists to each of our branches. While trading volumes across the industry have declined, we were able to gain market share over the past quarter and this trend appears to be continuing as we compare our results in July so far, to what we've heard and seen from our competition.

We also continue to see strong results from our retail international businesses, where DART volumes are up 19% year-over-year. We launched operations in two additional countries in the second quarter, further leveraging our global technology platform to widen our international reach, while doing so in a cost-effective manner.

Turning to lending, we have a tremendous opportunity ahead of us to unlock the value of an integrated retail lending solution. As we have discussed previously, we continue to make progress in our integration initiative to move E*TRADE Clearing under the bank. We still expect this initiative to be completed in the second half of the year pending regulatory approval. This initiative would allow us to bring margin debt balances under the bank's balance sheet as a high yielding, collateralized lending product with significant pricing flexibility.

Our end-of-period margin debt balances in the second quarter increased 10% year over year to nearly $2.3 billion. In addition to margin debt, we believe growth in HELOCs, mortgage whole loans, and credit card balances represent a significant opportunity to further leverage the bank's balance sheet through our retail relationships. This fall we expect to roll out our Lending Optimizer as part of the next iteration of E*TRADE Complete. Like the Cash Optimizer, which we already offer, the Lending Optimizer will offer greater transparency on customers' borrowing relationships and show the savings achievable by optimizing various lines of credit.

In the same vein, I'd like to take a minute to provide an update on a few of the early trends we are seeing since the initial roll-out of E*TRADE Complete. As we have discussed in the past, it is the embodiment of our strategic integration of products and functionality across a single back-office platform. In the second quarter, we upgraded nearly 1.4 million of our existing accounts to the E*TRADE Complete environment. Of the newly opened Complete accounts, since the launch of the product, more than 40% have linked an external account and 29% have conducted a transfer. This is a significant increase in utilization compared to our total account base. Through quick transfer, we are seeing $3 come in for every $2 going out.

We are also seeing a broader engagement around products such as bill pay and checking. Through all of this, we continue to see an improvement in both the quality and potential of the types of customers that we are attracting and retaining. And it's not just about attracting active traders. As we've said in the past, our ability to monetize customer cash more effectively allows us to generate the same value from a customer with $15,000 in cash as an active trader who trades 15 times a quarter. So basically, the model is working. We will continue to execute on our strategy, and we continue to enhance our customer experience, all at the same time while delivering greater efficiency and reducing operating expense.

And so with that I'll turn the call over to Rob for the financial details.

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Robert Simmons, Chief Financial Officer

Thanks, Jarrett.

Our second quarter financial results, once again, illustrate the strengths and benefits of our integrated model and its ability to drive value despite a challenging environment. As Mitch indicated earlier, we remain disciplined in our approach to managing the business, which requires diligence in evaluating our operations.

As a part of this, we made the decision to exit two businesses in the quarter. The decision to exit these businesses resulted in discontinued operations accounting treatment. All results presented in today's press release have been adjusted to reflect the discontinued operation. In addition, for ease of prior period comparisons, we are providing a spreadsheet with the un-audited adjustment for the past six quarters. This spreadsheet can be found on the Investor Relations site on our home page.

Second quarter total net revenue increased 3% year-over-year and declined 7% sequentially. As we look at what drove the year-over-year growth in revenue, we can see the continued positive results from our balance sheet integration initiative. Net interest income after provision grew 33% year-over-year to $195 million, and now represents approximately 50% of our total net revenue. This is up from 38% a year ago and from about 25% two years ago, before the launch of our balance sheet integration initiative.

The successful migration of brokerage customer cash to the bank's balance sheet has significantly increased this recurring source of revenue. Through the growth in net interest income and other revenue sources, retail commission revenue now represents 19% of our quarterly total net revenue. As the bank balance sheet continues to grow, having reached over 28 billion in assets at the end of the second quarter, spread-related income will continue to be a high quality, recurring contributor to our total earnings production going forward.

Total net revenue in the second quarter increased year-over-year, but declined on a sequential basis as a result of three contributing factors. First, absolute trading activity levels are down. Second, the first full-quarter impact of our revised commission rates, and third, lower overall gains on sale of loans and securities in our institutional segment. The combination of a lower average commission rate and lighter volumes led to a decline in total commissions of approximately $12 million, or about 11% quarter-over-quarter.

As we discussed on our first quarter conference call, the level of gains on loans and securities sold, are driven in part by loan origination volumes and our portfolio management process, including the repositioning of the balance sheet. We have sold mortgage-backed securities and asset-backed securities to make room for expected whole loan growth.

In the first quarter, we sold securities and increased our whole loan balances. This activity generated a greater level of gains than in recent periods. In the second quarter, we generated less portfolio gains but we grew the balance sheet and replaced gains with greater net interest income, a shift toward a source of more recurring revenue. In the second quarter, we continued to demonstrate prudent expense control and operational efficiency throughout the business. Total segment expenses declined $19 million quarter-over-quarter and increased about $5 million from a year ago. The increase in expense on a year-over-year basis is the result of our planned investment in marketing, which is up $13 million compared to a year ago. Excluding marketing, expenses declined by over $8 million on a year-over-year basis.

In review of the sequential trends, I'd like to provide some color on a few specific line items. Expenses related to compensation and benefits were down $8 million quarter-over-quarter to 22% of revenue. This decline largely was due to lower Social Security taxes versus the first quarter and lower volume-related compensation associated with our institutional businesses. As expected,

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we're now benefiting from lower expenses associated with our conversion to ADP late last year, plus lower development costs for E*TRADE Complete. These factors resulted in a reduction of professional services expenses of approximately $3 million.

Volume related expenses such as commission, clearing and floor brokerage costs declined, as expected, along with softer trading volumes. Advertising and market development expenses for the quarter totaled $26.5 million, flat with the prior quarter and consistent with our investment in marketing that we outlined for this year.

Other expenses also declined in this quarter. This reduction was due to a number of factors, including a favorable settlement of a liability associated with the reacquired licensing agreement in Asia, lower bad debt, T&E, and regulatory fees. Communications, as well as servicing and other banking expenses, increased slightly in the second quarter. The sequential increase in communication was due to higher mailing and printing expenses in the quarter associated with the front end launch of E*TRADE Complete. The increase in servicing and other banking expense is due to the growth in our whole loan portfolio and the associated costs of outsourcing the servicing of these loans. This expense line item is correlated to the size of our whole loan portfolio, but we expect it to get increase as we continue to increase whole loans as a percentage of our total asset mix.

On the bottom line we delivered total GAAP earnings of 27 cents per share and earnings from continuing operations of 29 cents per share. This 2-cent delta is due to the $6.7 million after tax loss from discontinued operations. Note that in the third quarter we expect to have a gain in discontinued operations attributable to the final sale of our RV and marine loan origination and servicing businesses. Earnings at the segment level totaled 25 cents.

Also noted that the 31 cent GAAP EPS number from last year included a 7cent gain from the sale of our Access business. As of the end of the quarter we still have over $70 million in unrealized gains from our corporate equity investments, with the majority related to the ISC, SBI, and E*TRADE Australia, among others. Our guidance continues to anticipate a net penny per quarter contribution from total other income related to the expected ongoing sale of these equity investments. We are pleased with the company's performance and our ability to successfully navigate through different economic conditions.

The actions we have taken this quarter and the cost discipline we continue to demonstrate are widening margins and improving returns, while preserving all the potential upside from a more favorable market in the future. This is how our team is working to create shareholder value. Today, we are adjusting our 2005 EPS guidance by raising the low end by 3 cents and narrowing the range to 96 cents to a $1.06. This new range reflects both the performance of the business to date, plus our expectations for the second half of the year as outlined on page 7 of today's press release.

Note that these numbers include the assumption that we adopt option expensing for the second half of the year, which is expected to have a 1 to 2 cent impact per quarter. We're also assuming a 36% tax rate for the back half of the year.

We continue to have an active stock repurchase program with an unused authorization of approximately $190 million. This quarter we bought back $16 million of stock, which was down quarter-over-quarter, because we were restricted from repurchasing stock for much of our normal open period. With this, I'd like to conclude by saying that our franchise has never been stronger. Our fundamental performance remains solid and we are excited by the fact that we are on track to deliver a third year of record profit.

Operator, we're now ready to open the call up to questions.

QUESTION AND ANSWER SECTION

Operator: [operator instructions]. Your first question comes from Matt Snowling with Friedman Billings Ramsey.

<Q – Matt Snowling>: Yeah, hi guys, can you hear me.

<A – Mitchell Caplan>: Hi Matt.

<Q – Matt Snowling>: Great quarter, just a quick question. Seems like so much of the story is dependent on really growing the customer cash going forward and that is part of the E*TRADE Complete program. And I was just wondering, from our standpoint, how can we track the progress in that, because it seems that you rolled it out. You're saying it's on track. But customer cash is only up $300 million quarter to quarter?

<A – Mitchell Caplan>: That's right. So a good way to look at it – let me walk you through it, Matt. First of all I'm not sure it's entirely dependent on cash. I think what we're trying to do is say that we have a retail customer and we're going to generate multiple streams of revenue. One clearly is going to be trading. You know, that's the genesis of E*TRADE. And what we want to make sure that we focus on is that we're still growing revenue and earnings even in difficult equity markets, like we've seen certainly this last quarter and over these last few years more often than not. That said, we keep ourselves in a position where there is the leverage there. Also, you'll note in this quarter we definitely appear to have gained market share in both margin and trading. So there's definitely an opportunity for upside there. When you move over on to the asset side, as well as the creditor borrowing side, I agree with you, I think E*TRADE Complete is a pretty interesting product and can generate a lot of opportunity for us. Two ways: one is you start, as you pointed out, with assets of which cash we now view a significant part of our asset strategy is being growing cash. And the goal there is to be able to do it through E*TRADE Complete with the Cash Optimizer. What you have seen year over year is a growth of, as Rob said, about a billion two or a billion three in trading and investing net up about 800. This last quarter I think you saw 300 net. Basically you saw 400 – a little over 400 move on to the bank’s balance sheet though, and about 100 million that would traditionally be in brokerage ultimately was used for investing in equities. So we did see a growth of about $400 million in this quarter. Also, as we have entered the new quarter that we're now in, we are seeing very early indications of extremely strong growth in cash. We're seeing growth that is two to three times greater than what we have traditionally seen in these last few quarters. So our hope and our view is that we're beginning to see some of the benefits take hold around cash through E*TRADE Complete and also, independently of that, creating a value-based offering for cash and letting our individual customers on the trading and investing side know about it, totally independent of Complete, as a standalone product with value. On the other side of the equation the goal is to continue to create revenue and earnings by widening spread from the credit side or from the borrowing side, and we believe that we will begin to make more significant progress on that as we launch the Lending Optimizer, which we intend to do in the fall. But the nice thing that you'll note is that in this particular quarter, gains were down in the institutional segment. The most significant reason for that is a lot of the originations that are occurring now are occurring through our retail customer base and we're actually beginning to grow and put those on balance sheet, which we have traditionally not been able to do as successfully.

<Q – Matt Snowling>: Okay, can I just follow up real quick on that?

<A – Mitchell Caplan>: Sure.

<Q – Matt Snowling>: You know, how do we think about the run off from your RV business I’m assuming you're not portfolioing any new loans going forward, is that right?

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<A – Mitchell Caplan>: Yes.

<Q – Matt Snowling>: And then are you just going to replace that with HELOCs and –.

<A – Mitchell Caplan>: Yep. And so what you saw and what you will see throughout the rest of this year, in Q3 and Q4, the continued repositioning of the balance sheet. We're continuing to make room for exactly the products that you've described. Mortgage whole loans, home equity lines of credit. To a lesser degree it could be credit cards in connection with Complete, as a securitized credit card, and margin, and the idea of margin going on balance when we put Clearing under the bank. So those will be the key drivers for our balance sheet going forward and we will link that to the engagement with the retail customer. So one of the other ways to look at the success of Complete as cash, but also looking at products per customer. So, we were at, I think, 1.7 or 1.8.and we moved to 1.9. This quarter we moved to 2. We continue to make progress, and when you talk about the size of our base, each incremental move in that number is significant to both revenue and earnings.

<Q – Matt Snowling>: Okay. One final question.

<A – Mitchell Caplan>: Sure.

<Q – Matt Snowling>: On your bank spread, 222 basis points?

<A – Mitchell Caplan>: Yep.

<Q – Matt Snowling>: How much of that, or how much did the E*TRADE Complete cost you? Did you raise pricing on some of your deposit rates?

<A – Mitchell Caplan>: Yeah, we did, and you saw most of that impact last quarter. You're absolutely right. There was definitely an impact in that this quarter, in Q2, you had the full impact of those pricing changes from Q1. So as you looked at the re-pricing of the liabilities up 20, which was still less than the 22 basis points in assets, there was probably three or four basis points of that, that was directly attributable to the re-pricing that you didn't see in the prior quarter.

<Q – Matt Snowling>: Okay. Great. Thanks.

<A – Mitchell Caplan>: Okay? And the other thing to note on that, which I think is interesting, is one of the questions we've been asked about is what happens in a rising rate environment and a flattening yield curve? And when you look out over this last year, you'll see, you know, year to year, we're up 200 basis points or 2% in Fed funds and the yield curve has flattened by 162 basis points and we've been able to widen our spread, you know, literally from what was 205 to 222.

<Q – Matt Snowling>: Right. Thanks a lot. Great quarter.

<A – Mitchell Caplan>: Thanks.

Operator: Your next question comes from Rich Repetto with Sandler O'Neill.

<Q – Richard Repetto>: Hi, guys.

<A – Mitchell Caplan>: Hi Rich.

<Q – Richard Repetto>: First question either for you, Mitch, or Rob, could you talk through and reconcile the 25 cents from segment versus the 27 GAAP, or, I guess, 29 before discontinued operations?

<A – Mitchell Caplan>: Yep, happy to do it. Do you want me to do it? I'll start. We had 25 cents in segment. If you looked at our corporate or below the line expenses, there was 4 cents net of interest expense. Those 4 cents came from gain on sale of securities. You will probably find – and when I say gain on sale of securities, I mean of corporate securities. So, specifically, we had about 2 cents of gain associated with SBI, which is E*TRADE Japan, which we talked about pretty much every quarter. We also opportunistically sold Archipelago in this quarter, given the move in the stock, and that generated about a penny. And finally, in preparation for our bid on Ameritrade, we actually purchased Ameritrade stock as a toehold. So one of the good news is, as the stock appreciated and then we sold out of it at the end of the quarter we generated another $7 million, or a penny. So in total, we generated 4 cents from corporate earnings, net of the interest expense. And we then lost 2 cents in connection with discontinued operations. So that would take you from the 25 up to the 29 in ongoing, back to 27 in terms of GAAP earnings. Does that help?

<Q – Richard Repetto>: Sure does. That Ameritrade purchase was slick. But anyway, I guess the next question, Rob, I didn't hear you say anything on just free cash, or did I miss that?

<A – Robert Simmons>: No, I didn't say anything on it. But I'm happy to talk about it. I mean, basically for the quarter we ended with free cash of about 728. So from – if you look at it from a cash flow basis, we generated about $185 million in cash from operations. And we reinvested about 111 of that, as Mitch kind of made reference to. We deployed about 111 of the cash generated as new regulatory capital, primarily in the bank entity. So net-net for the quarter we were up about 38 million in free cash, net of our reinvestment in the new reg capital.

<Q – Richard Repetto>: Got you. And, I guess, just two other questions. Mitch, first, in your sort of goals and targets, you mentioned the 20% ROE. If you just take the equity that's on the balance sheet right now, over the shares and not counting any share buybacks or anything before year-end, I'm coming out to over a buck 20, a buck 21, a buck 22 in earnings. So is that sort of the direction? Is that the road that we're looking? You know I'm jumping the gun I admit on guidance, but those are the numbers that you back into if you try to get to a 20% ROE next year.

<A – Mitchell Caplan>: I think you're factually correct. Though we have not yet given guidance, which we typically do in December, you know that long before the end of the year we begin our strategic planning process where we have some idea of what next year will look like and where we intend to grow and where we intend to invest. And we have long talked about moving ourselves into a position of having a 40% operating margin and about a 20% return on equity. We never gave guidance on specifically when we wanted to achieve that, and I think we're now saying that that's certainly a goal we'd like to achieve in 2006.

<Q – Richard Repetto>: Got you. And the very last thing, you came right out of the chute, Mitch, talking about consolidation. And I thought I heard you say something about people not within the space. I know it's a delicate subject. I know you'd never mention a name, but what type – like who would look at – what are the synergies with some other institutions, whether it be financial or otherwise, just to think about what might go well with you within E*TRADE, what might people be interested or what might you be interested? If it's not – you know, God, we've all thought long and hard about the Ameritrades and the Schwabs and the Harris Directs of the world

<A – Mitchell Caplan>: Yeah. So I think there are a couple things. One is, you know, first of all, and you – I'd be remiss if I didn't say this. The most important thing and I think we've said it, is we had, I perceive, a very strong quarter. We feel very good about where we think we're going in 2006. And one of the things that matters most to us as a team is being disciplined, whether we're doing an acquisition, or disciplined in running the business, and making sure that we stick to the knitting and the fundamentals and continue to grow and build the franchise. And that's what we intend to do. In the process of doing that, I believe that we are creating an ever-more valuable franchise. And one of the things that's unique about what we have built is that we are in a place where, not only do we have leverage to the upside in the equities market as I talked about earlier

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with Matt, but we're in a place where, when you look at customers, you can monetize the relationship with them, not only around trading, but also around investing in the form of cash, because we have a bank balance sheet, and also in the form of credit and the deepening of the credit relationship. And so when you think about consolidation, it could occur in the space, and there are synergies associated with consolidation in the space just from taking costs out. But there are also significant synergies because of the uniqueness of our model. When you look in financial services at large, often that's the case as well, and even when you look outside of financial services, there's the potential where if you have a deep customer base and it's growing and engaging with customers and they have a need for financial services, there's also an opportunity there. And so, ultimately, when you look in the marketplace at anybody else's account, it becomes more valuable in our model, because of the franchise that we built. And so when we began the process we knew that, you know, consolidation would begin. It would begin in earnest and underway. And I think I've said repeatedly, and I believe it. I think we're in the first inning of six or seven innings. And now I think you'll continue to see consolidation within the space and then outside the space.

<Q – Richard Repetto>: Great. Thanks. I appreciate it.

<A – Mitchell Caplan>: Sure.

Operator: [operator instructions]. Your next question comes from Richard Herr with KBW.

<Q – Richard Herr>: Hi, good afternoon, guys.

<A – Mitchell Caplan>: Hi Rich.

<Q – Richard Herr>: Nice quarter.

<A – Mitchell Caplan>: Thanks a lot.

<Q – Richard Herr>: Just first off, I saw you bumped up a little bit the guidance for the average commission per trade. I think at the beginning of the year you were saying 950 to 970. Really, what's changed there, is it the mix? Is it just the price-cutting that you guys did, or the price segmenting that you guys did early in the year? Did that kind of shake out the way you originally thought?

<A – Mitchell Caplan>: It really is predominantly driven by the mix.

<Q – Richard Herr>: Okay.

<A – Mitchell Caplan>: So if you look at, you know – I mean one of the things is that – so when you think about mix there's two ways to think about it. One is the mix between what we consider retail DARTs, both U.S. and international, and then professional DARTs. And then the other is, when you think about retail DARTs, it's the mix between active trader and less active trader around the pricing. And I think we've seen a nice engagement of serious investor on the U.S. retail side, which has been helpful. We've seen very strong growth, as you know, in international DARTs year-over-year. They're up dramatically and that has a very strong commission component to it. And finally, retail has been having a much stronger mix than you've seen in Professional. And in fact, one of the things I guess maybe it's a good time to comment on is, we had a significant decline, frankly, in professional this past quarter. A part of that, and we would expect to see this as a more normalized run rate, is that when we exited the hybrid and prop business, there are some traders, professional traders, who were also agency traders, who were participating in hybrid and prop, and so that they exited and we also lost a little bit of the trading volume there. We knew that would happen and we still believed, obviously, from the dynamics of Op Margin and improving profitability, it was the right decision to make.

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<Q – Richard Herr>: Okay. That's very helpful. Just on the sale of the old Ganis business. I mean, why now? Do you think the cycle is turning? Is this something you want to get out of before we see, maybe, credit worsen?

<A – Mitchell Caplan>: No. It really isn't credit driven at all. So, if you think about the reason why we purchased Ganis, and frankly I'm as accountable for this as anybody, at the time that we bought it, we believed that perhaps there was an opportunity to connect it to our core retail customer base, i.e. that our base might be interested in marine or RV loans. But the real reason that we bought it, and the driving factor was around a risk-adjusted return on that asset. So we believed that when you looked at the risk and the charge-offs, which you've now followed it for a couple of years and it's performed incredibly well, that the economics justified putting that on the balance sheet as a way in which you could grow products that had super prime borrowers, very high FICA scores and low LTVs with low credit losses. And that was true for a very long time. What you're seeing today in the marketplace is dramatically tightening spreads in this business. So when you look at continued origination and you look at staying in the super prime borrower, with the same sorts of loan to value, the spreads have tightened. So when you analyze it on a risk adjusted basis it just doesn't make sense. And as hard as we've tried, and Jarrett's tried in the last year to begin to deepen the relationship of our retail customers and sell them these boat and RV products, it's just been too hard to do. So it's sort of disconnected from there.

<Q – Richard Herr>: Okay. That's very helpful. Just two more quick questions, I thank you for your time. On the expenses, I think, relative to our own estimates, and the expenses were really outstanding, how much more do you think you can save there in terms of cost saves and cost synergies selling the different back office operations and the like?

<A – Mitchell Caplan>: Well actually, it's a great question, so let me tell you a couple of things. One is, in terms of the way you should think about the guidance for the rest of the year, let me do that first, and then let me talk about sort of going forward into next year and beyond. If you think about currently this year, one of the things that we've done in guidance, I think Rob was pretty clear, that when we sell Ganis we do expect to generate a gain. We do not expect that gain, or we did not include that gain in the guidance we have given today. So as we have now guided from 96 to a buck 6, we've done it assuming that that was totally independent of whatever gain you will see show up in Q3 to the extent that we exit, first of all. Second of all, when you then start to begin thinking about the expense infrastructure, I think at the beginning of the year we guided that we would get somewhere in the neighborhood of $40 million in expenses out in this current year. We are on a run rate where we've taken about 20. So we're halfway there. And we feel confident of the ability to get the other 20 out as you go through Q3 and Q4. So we anticipate making continued progress. Now, independent of that, which was what we signed up for when we originally gave guidance back in last December, we are continuing to review our platform and our operations and to continue to streamline them in a way that we can be more effective and more efficient. And so going forward, as we go through the rest of this year and exit, we're going to look for ways in which we can dramatically improve our efficiency. That's what you can see as you talk about moving to a 40% operating margin for next year.

<Q – Richard Herr>: Okay. That's great. And one last question, I promise. Just looking at the bank funding, I saw there was a big increase year-on-year, maybe you could just walk us through how the complexion of the funding is changing at the bank, despite what I consider pretty good retail deposit growth? The FHLB advances year-on-year and quarter-on-quarter have grown pretty significantly. Is that something we should continue to expect? I mean it's a little bit of a higher yielding liability than relative to retail deposits.

<A – Mitchell Caplan>: No, you should not. So, what you should think of traditionally is that as you grow the balance sheet, particularly – and now as we're getting more connected with the retail customer, even on the credit side and you're putting loans on balance sheet and you're growing

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your balance sheet, you may initially fund with an FHLB advance. It's a very cost-effective way to advance in the wholesale market. And then ultimately, over time, you'll replace the FHLB advances with growth in core deposits. And you actually ask a really interesting question, which is, if you looked back over the last 12 months, we've almost flip-flopped in some of our deposit products, particularly around money market and CDs. So where toward the end of last year we were seeing outflows and we were exiting CDs and money markets and we were doing it because it was – we felt that we could not be connected to that customer. It tended to be more rate sensitive and that ultimately over time it was very hard to maintain or build a relationship with that customer. So as we dropped pricing we saw the customers leave. You are for this quarter, for the first time, as we're entering into this current Q3 quarter, beginning to see growth in both CD balances and in money market. The difference is, it's all part of Complete. So Jarrett has now launched an offering, whether it's the Complete CD or the Complete money market, so as it engages back with one of those trading and investing customers. And as you've seen the growth of both CDs and money markets in this quarter it's almost entirely connected to that core trading and investing customer. So we see the opportunity to grow cash, not only within Sweep, but enterprise-wide among all of your products in banking, as well as outside of banking just in your free credit. So, you know, our goal is to continue to grow that and then sweep as much as we can on balance sheet.

<Q – Richard Herr>: Thank you very much.

<A – Mitchell Caplan>: The other thing, Rich, let me make a point, is that we now see, because I know we will get asked this afterwards and I just want to address it on the call. We have about $6.1 billion in cash that's still un-swept. When you look at that it's comprised of just about 1.6 billion or 2 billion in that neighborhood that's now at Dreyfus in the tax-exempt funds and we view as not sweepable. There is about a billion that's also not sweepable, as you look at the marketplace, that's rules-based. So it's pattern day traders, it's other issues that make it not available to sweep. So we do currently still have about $3 billion available for Sweep. Of that, about a billion is international. And one of the things that's interesting for us and a growth opportunity, certainly as we exit this year, is to begin to look at our international operations and expanding them in a way in which we're not only reliant on trading from them, but we begin to look at this growth in cash when we began to recognize there was a billion dollars of cash being held internationally. We knew that there was an opportunity to tap into that and use that also as a growth avenue and put it on our U.S. domestic balance sheet in order to lower cost of funds and continuing to widen spread.

Operator: We have no further questions at this time. That concludes today's conference call. I'd like to turn over the call to Mr. Caplan for any closing remarks.

Mitchell Caplan, Chief Executive Officer

Thanks very much everyone, and we look forward to the Q3 call.

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