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MANAGEMENT DISCUSSION SECTION

Operator: Safe Harbor statement.

Now I will turn the call over to Mitchell Caplan, Chief Executive Officer of E*Trade Group. Mr. Caplan the floor is yours.

Thanks everybody for joining us this afternoon. A word on process for today and going forward. Our prepared remarks will be brief, and we will leave ample time at the end for questions. Over 20 years ago E*Trade was founded with this simple principle: Use innovative technology to provide superior financial products and services. Along the way we have experienced all types of economic conditions, from irrationally exuberant bull markets to exceedingly pessimistic bear markets. We have added new components to our business to better serve our customers.

In 2000, we added a retail bank that has been built on exactly the same principles of value and technological advances. That bank is now the eighth largest savings bank in the country. We have added or built strategically to capitalize on natural cross-sell opportunities and to produce scale and efficiency. And throughout we have remained committed to our core tenet. We have always and will always aspire to create customer value and competitive advantage by being faster, cheaper, and better than our competition. And so, while there are a greater number of parts than in the old days or as compared to a mono-line brokerage or bank, our model remains simple and opportunistic. We offer brokerage, banking and lending products to retail, corporate and institutional customers, all built around a low cost technology infrastructure.

We manage risk through strong, conservative credit policies. Our diversified model provides downside protection in difficult times. More importantly the complementary nature of our businesses provides greater upside through scale, efficiency and cross-sell. Moving forward we remain committed to our principles of value and innovation. We will continue to add businesses and scale as opportunity presents. And when appropriate we will exit those activities that do not conform to our core tenets. We will be rigorous in delivering results while building long-term value, and we will continue to build on our vision to re-invent and redefine the industry.

It is in this context that I'm pleased to announce that in the latest of what has become the string of very difficult quarters for the economy, we generated reported earnings of 6 cents a share, or 10 cents per share from ongoing operations, a non-GAAP measurement. These results are consistent with Street consensus. Len will walk you through the financial details in a few minutes.

Again this quarter, we have demonstrated the value of diversification. While brokerage revenue continued to show the impact of a challenging equities market, interest and fee income from banking activities produced some of the best results our banking segment has experienced to date.

Let me now turn briefly to our brokerage and banking businesses. In E*Trade Securities' brokerage business, we are concentrating on increasing market share and creating cost efficiencies. For the third quarter in a row, based on industry numbers released for January and February showing a decrease of approximately 15% in the industry, we have increased market share, demonstrated by our decline in average daily transactions by only 6% for the entire quarter.

We have done so by focusing on the active-trader segment with our targeted promotion of the "Power of 9 " value proposition. In early March, we began the second stage of this campaign, introducing competitive pricing on margin rates and options trades for qualified investors. Since launching this new campaign, margin balances among active traders have increased, and active trader option trading as a percentage of total active trader trades has increased 12%.

Our ongoing focus on operating efficiency has given us a lower transactional and fixed cost structure, translating into real operating leverage throughout the business. To this end, we can increase earnings per share by a penny per quarter in a number of ways, including producing an additional 10,000 transactions per day, increasing margin debits by $300 million per quarter, or reducing our cost structure by 2%. This focus on lowering fixed cost and eliminating redundancy across complementary retail, institutional, and corporate businesses has created one of the lowest cost operating structures with downside protection and some of the greatest upside leverage in the industry.

At E*Trade Bank, we are concentrated on widening net interest spreads while carefully managing and limiting credit risk. To achieve our goal of wider spreads, we continue to take a balanced approach of asset diversification and liability cost reduction. Each incremental 15 basis points on our bank net interest spread contributes earnings per share of 1 cent per quarter. This quarter our net interest spread increased to a 152 basis points, a 12 basis point improvement over last quarter.

High mortgage prepayments and a limited availability of asset portfolios that met our stringent credit requirements partially offset the 20 basis points spread gain we saw from our expanded consumer line portfolio. Carefully managing the credit quality of our assets will always take priority over increasing net interest spread. At the same time, that same low interest rate environment that has driven high prepayments and has held in check our ability to widen interest spreads has been of great benefit in our direct and indirect mortgage origination business.

Over the first quarter, we generated a record $ 2.5 billion in direct retail mortgage originations and over $1.2 billion through our correspondent business in mortgage whole loans. We also are carrying $1.2 billion of direct originated mortgage whole loan product locked in the pipeline into the second quarter. Our diversified model continues to drive cross-sell success.

During the quarter, 41% of our FDIC-insured deposit products, 26% of our mortgage products, and 38% of our home equity products sold came from cross-sell. The value in cross-selling opportunity continues to represent a significant one for us. For example, if we can increase the number of households in our base that purchase our lending products by just 1%, we could generate incremental earnings per share of up to 3 cents per quarter.

We are lowering our cost of funding by continually improving the value proposition we offer our customers. This focus has generated growth in transaction deposits, both quarter-over-quarter and year over year same quarter. Transaction deposits grew by $318 million, 58% of net new deposits in this quarter for banking, bringing our total transaction deposits to $4.6 billion, which is over 51% of our total deposit base.

We believe that it is extremely rare, if at all possible, to find a unique way to extract consistent and recurring value from loans on the lower end of the credit spectrum. Accordingly, we have chosen to lend to only the higher credit end of the market, and virtually all of our loans are secured by mortgages or consumer assets with conservative loan to value ratios. For example, our mortgage product has an average LTV of 67%, while our home equity product has an average LTV of 78%. We maintain adequate reserves, which represent the equivalent of 12-months-forward expected losses in both our mortgage and consumer loan portfolios. As a result, we have been able to keep our losses well below industry average. Our charge-offs for the quarter totaled 21 basis points on total average assets, well below the OTS (Office of Thrift Supervision) fourth quarter industry average of 34 basis points. The credit quality of our asset portfolio remains strong, as demonstrated by the weighted average FICO scores for our mortgage and consumer portfolios holding solid at 724 and 728 respectively. All told, this past quarter again validated the power of our concept. And though it is difficult to get too excited about today's equity markets, it's easy to be confident in our model. We have a great foundation on which to build and a 20-year legacy from which to draw.

The management team and I are dedicated to improving both short- and long-term value for our customers and shareholders. We are disciplined in driving initiatives that fulfill our vision and in eliminating businesses or products that do not. Over the last 90 days, we have conducted a comprehensive evaluation of our businesses, products, and services. Every business, initiative, and investment was re-examined for consistency with our goals of value and innovation and for adequate profitability. This process has generated opportunities for cost reductions over and above those that we will naturally derive from smart applications of technology. In the next three months, we will be finalizing a restructuring plan that will be implemented over the next two quarters. The plan better aligns our cost structure with our vision for the company and with current business conditions. At the same time, it also maintains the infrastructure required to achieve the company's full growth potential when general economic conditions improve. The restructuring plan has two major elements. First, we will be exiting unprofitable locations, including our E*Trade financial center in New York and certain international locations. We will also be consolidating underutilized facilities and reducing square footage in our Menlo Park and Rancho Cordova offices, while remaining committed to maintaining a presence in these cities. Second, we will be exiting and writing off unprofitable product offerings and initiatives, specifically Stock Baskets, E-Advisor, and Personal Money Management. None of these were making an adequate return to justify continued investment of capital and management time. We expect this restructuring plan to result in approximately total pre-tax charges of up to $120 million over the next two quarters or up to 20 cents per share. These actions will allow us to achieve additional pre-tax cost savings estimated between $40 and $50 million or 7 to 8 cents annually. The plan is designed to enhance short, intermediate, and long-term profit performance. More importantly, it is designed to ensure that we continue to be an efficient, effective competitor. The associated savings better position us for continued sluggish economic conditions and create additional operating leverage when the markets return. As we continue to develop our business, we are maturing our business practices. As Len walks you through the numbers, you will see that we are committed to providing transparency into our model and our results. We are providing a new segment breakout of our fully allocated brokerage and banking segments. We have provided additional methods in our press release, including transactions per account per quarter, EBITDA, and interest coverage to name a few. In the second quarter, we intend to break out compensation and benefits expense in our earnings release as a precursor to our transition to a natural accounts expense-reporting format over the next few quarters. Last year, we heard shareholder concern around corporate governance arising from compensation issues. This troubled us deeply, because it drew focus away from the continuing success of our model and from the work of our dedicated employees.

We have acted strongly to remedy these concerns. We split the office of Chief Executive Officer and Chairman of the Board, and we recently announced the appointment of four new unaffiliated and independent outside directors to our board. With Bill Ford's and Peter Chernin's departures and upon shareholder approval, our board will consist of 9 independent directors and one inside director, well in excess of NYSE, SEC and CalPERS guidelines. Our new directors bring distinct financial services expertise and relevant experience needed to provide outstanding corporate oversight.

They also comprise the newly reconstituted compensation committee. The intent of our structure is to ensure that the board remains completely impartial in reviewing, evaluating, and guiding the company's business at arm's length to better serve our shareholders. In addition, every member of the management team has agreed to a realignment of compensation, including components and metrics, with all plans being approved by the entire board. All of the changes that I have discussed might seem new but they are in fact a rededication to those principles upon which we were founded. We have traditionally been lean and efficient, and we have always aspired to be a customer champion. We are passionate about our business, and moving forward we will ensure that our dedication to corporate excellence matches our dedication to customer and power. Now to Len for the numbers.

Thanks Mitch. This quarter generated settlement total net revenues of $322 million. That's an 8 percent decline from last quarter, and 3 percent decline from the same quarter last year. This decline is largely related to reduction in brokerage revenues, partially offset by an increase in banking revenues.

Cash and equivalents for the quarter totaled $ 975 million, and free cash totaled $402 million this quarter, a $35 million increase over the fourth quarter. Free cash as we define it represents cash held at the parent and excess regulatory capital of bank and brokerage and is a metric used by management in measuring business performance. Beginning this quarter, we are adding an additional cash flow related metric, EBITDA, to supplement the GAAP cash flow presentation in our 10-Ks and 10-Qs.

The definition and reconciliation of EBITDA to GAAP net income is in the metrics section of our earnings release. EBITDA for the quarter totaled $79 million. That's a 23 percent decrease over last quarter and 12 percent decrease over the same quarter last year. While lower on a comparative basis as a result of reduced income, we remained strong, generating debt service coverage of nearly 7 times. As you will find detailed in our press release, provision for loan losses totaled $10 million versus net charge-offs of $9 million. This quarter's provision is up slightly as expected, reflecting the different composition of our balance sheet. Our reserve now exceeds $29 million, an increase of more than $1 million over last quarter.

For the quarter, our total reserves to non-performing loans equaled 119 percent. That's up from 104 percent in the fourth quarter, and a 48 percentage point increase from 71 percent for the last year same quarter. Our brokerage revenue for the quarter totaled $177 million, a 17 percent decline from last quarter and a 21 percent decline from same quarter last year. This decline is the result of a significant reduction in trading activity during the quarter, impacting both our retail and institutional businesses and lowering commission and transaction revenues. Our banking revenue for the first quarter totaled $145 million. That's up 7 percent for the last quarter and up 36 percent over same quarter last year. This increase is related to a growth in net interest income and an increase in gain on sale of originated loans, partially offset by a decline in gain on sale of loans held for sale and other securities.

The increase in net interest income is a result of widening interest spread and an increase in average bank assets. The growth in gain on sale of originated loans is a direct result of the continued success of our direct mortgage origination business and the addition of our consumer finance business, Ganis. The decline in gain on sale of loans held for sales stems from our decision to retain more of our correspondent flow in comparison to the fourth quarter.

And while we continue to anticipate a decline in mortgage revenue generation, when interest rates rise and refinancing volumes slow, we also expect to offset declining mortgage revenue with higher interest income both from higher spreads and a larger overall balance sheet. On the expense side, in accordance with our guidance, we saw a slight increase in cost of services and in general and administrative spend, primarily as a result of a full quarter of the expense associated with the Ganis acquisition.

This increase was offset by the reduction in selling and marketing expenses, and marketing in our institutional business has a variable component, and with the reduction in institutional revenue came a corresponding decrease in expense. We have included in the press release the presentation of our new segment-reporting format. These segments, brokerage and banking, include for the first time the full allocation of corporate overhead and marketing expense, and reflect the way that we manage our business. We will make available on our website the new segment-reporting format for the fourth quarters of 2002 in addition to the quarter-over-quarter and year-over-year comparisons in the press release.

This segment format illustrates that in 2002, the brokerage segment was able to deliver solid profitability throughout the year. Brokerage represented 65 percent of annual revenue and 43 percent of the full year's operating income. Our banking segment represented 35 percent of annual revenue and 57 percent of operating income. Quarter one of 2003 saw the banking segment deliver $44 million of operating income, flat with last quarter.

The brokerage segment, with transaction volumes continuing to be under pressure, generated $8 million of operating income in quarter one versus $25.7 million last quarter. In summary on a reported basis, the company's first quarter net income equaled $21 million, or GAAP earnings of 6 cents per share, and earnings from ongoing operations were 10 cents per share, in line with Street estimates.

Now turning to guidance. For our second quarter, we see no external events that will act as an impetus for change. Indeed, we have already seen trading activity decline year-over-year and quarter-over-quarter well below our anticipated daily average transactions for the year. Should trading activity continue to decline, we will be challenged to find ways to accelerate efficiency initiatives and find other sources of revenues and to offset additional lost revenues needed to meet or exceed our original guidance from ongoing operations of 45 to 55 cents per share for the year.

The equivalent on a GAAP-reported basis will be EPS of 30 to 40 cents per share. Nevertheless, we are reiterating our regional 2003 guidance prior to the restructuring charges of up to $120 million, or up to 20 cents per share, expected to occur over the next two quarters.

In closing, a few key messages. The company's two segments, brokerage and banking, are both profitable. Our Balance Sheet is financially sound, and our reserves are adequate. We continue to use technology to create customer value and competitive advantage. This focus has created one of the lowest cost operating structures in the financial services industry. Our cost structure, coupled with our complementary suite of products, provides downside protection in difficult times and enhanced profitability in good times. And finally, we are dedicated to excellence in corporate governance. With that we will now open up this call to answer your questions.

QUESTION AND ANSWER SECTION

OPERATOR: Justin Hughes from Jefferies & Co.

<Q>: Good afternoon. You spoke quite a bit about how you estimate that you had picked up market share in the brokerage segment. I was wondering if you could break out the DARTs (Daily Average Revenue Trades) for us by month for January, February, and March?

<A>: Justin, it is not something we break out monthly. I think what you have seen from the other areas of the sector that give out their monthly data that we're no different from them. We have seen gyrations within the quarter. We have had days where we have had transactions as low as 57,000 and we have had days where we have had transactions as high as 115,000. So it was a very unusual quarter in terms of lot of volatility in the highs and lows that we saw in the transaction volumes.

<Q>: A little more to the point, could you just tell us how March was versus February, since nobody has reported March numbers yet?

<A>: Again, we prefer to let the other guys come out with their numbers. Its one of the things we considering as we go to natural accounts as to whether that's something we want to do in the future, is to come out with monthly data. Conceptually Justin what I would tell you is, if you looked, and one of the things we are considering as you know is beginning to report monthly DARTs. In the meantime, I would tell you that if you looked at our performance month-by-month and for the quarter, if you'd see the decline of 6 percent, that was pretty much in line each month as it compared to our competitors in terms of our consistent out-performance. So when you looked at how much market share we picked up, what we saw was it was pretty consistent month-over-month, ending with the final decline of 6 percent compared to lots of estimates in the industry of it down anywhere from 12 to 21 percent.

<Q>: On the bank side, I noticed that your deposit growth, well you had a deposit growth for the first time in several quarters, as well as account growth. I was wondering if you doing something differently there, or is that in any way related to Ganis?

<A>: Let me turn it over to Arlen. But the first thing to note is we did show growth last quarter as well. So this is our second quarter of growth in the area, and I would say at a high level it really isn't Ganis. Its singularly focused around the deposits as you well know with people being very focused on FDIC-insured, very focused on safety and protection of security, and looking to move money into bank deposit accounts. We clearly benefited from that. As well, there was significant spending and marketing around it. Let me have Arlen help us walk you through the details.

I mean, on the account growth, yes, there was reasonable amount coming from Ganis. But we really saw some substantial growth, particularly in the deposit accounts. We had inflows and outflows, but the thing that we found most heartening is that it is clear to us that our value proposition is catching on, particularly as we look to stress in increased growth and transaction accounts. I mean on account growth basis, our transactional accounts accounted for almost 70 percent of the net growth. And transactions deposits of all of our net inflows for the quarter represented 58 percent of all of our deposits coming in. So transaction deposits overall are at a solid 51 percent, with CDs being 49. But we are see that increase quarter-over-quarter. So we are pleased with that.

<Q>: On the $120 million charge, what's that primarily related to? Is that primarily real estate or is that write off capitalized software?

<A>: It is not primarily real estate the way you are thinking about it in term of a facilities restructuring for employees. There is a real estate component, for example in exiting the New York

E*Trade financial center. We are looking at all of our centers. So to the extent that we would exit any of our centers because they are too large, there could be a component there. Otherwise it really is the discipline of exiting products that aren't successful. But I am going to turn over to Jarrett let him spend a few minutes talking to you about the restructuring charge.

<Q>: Justin, just reiterating what Mitch said, its not being driven by facilities . Its being more driven by good practice, and its an ongoing practice that we will continue where we always look at our businesses and review them and make sure that they are living up to their promise. And so at this point, we have been looking at the touchpoint strategy, and yes, we have got something like the New York center, which is a little too big. The ideal size for us would be something smaller, more like 3000 sq ft. So we'll be looking at refining that and moving on there. Internationally, we have got some bright spots in international, more on the active traders' side. But then we have also got some areas just aren't pulling their weight. We will finish the review, but if they're not living up to their promise, we will exit those areas. And then we have got some products that just haven't taken root, namely PMM (Personal Money Management), and the Baskets, and the E-Advisor, just things that customers didn't respond to. They cost us money to keep and they take management time, and its time and money better spent on other projects. So that's really the heart of it.

<Q>: So, if you're exiting Stock Baskets, is the charge you are taking there, is that because you are laying off people that were dedicated to that product, or is it that there is some type of software that was capitalized. I don't imagine it would take up any facilities.

<A>: Yes, on something like that there is not a facilities component at all. It gets back to what Mitch is talking about. A lot of this is more just looking at products and activities that we were involved with and did they make sense for us today.

<Q>: Okay. So it sounds like it is mostly the capitalized investments that you had in those products, being software or whatever else.

<A>: Yes.

<Q>: Okay.

<A>: Hey Justin we are going to have to let some other guys asking question you can come back later.

<Q>: Okay thanks.

Operator: Richard Repetto with Putnam Lovell Securities

<Q>: I'm going to try to keep it to two questions here I think. First, on the guidance, it has pretty much stayed the same and sounded pretty cautious, I guess, Len. But when you look at what's going on in the mortgage industry there, the MBAA (Mortgage Bankers Association of America) is up by 30% originations, 96% percent of that is re-fi, 85% of it is in the next three quarters, plus you have the restructuring and at least some marketing decline this quarter. Just trying to balance out how you are looking at the guidance with the up-tick in mortgages; where were you offsetting it to keep just flat guidance?

<A>: Let me take a first pass at that, Richard, if I can, and then let me turn it over to Len. As you have seen, we have consistently delivered our numbers in accordance with Street consensus estimates, when many of our competitors have failed to do that. And I think it is exactly what you are referring to, which is the diversified model that has allowed us to do that. So, when we gave the initial guidance, my recollection was we said that transactions would stay flat last year at 88,000. You saw a decline this quarter of about 6%. We offset some of that clearly in connection with the performance that you are seeing at the mortgage company.

So again to your point, I think we have more visibility than most as we give guidance because you look at the different components that make up our income. That being said, it is unclear exactly where transactions will go for any of us. Clearly our goal is to ensure that we gain market share consistently. We have done it now for the third quarter in a row and we will remain focused on that. But it doesn't guarantee that you won't see a decline in transactions. And so as if we look forward, our hope would be that exactly what you're saying: each of the different components works together in the aggregate to offset, one decline in revenue could be offset by an increase in the other, as well as the decline in expenses. Also the point that I just want to make really quickly with the restructuring charge is, we intend to finalize it in this quarter. We will begin the implementation over the next two quarters. It will probably be Q4 before you even begin to see any significant pickup whatsoever as the result of the benefit, and you should really begin to look forward to next year in terms of those cost savings of 7 to 8 cents. Not a lot to add there except that, as we look at the restructuring, we are really accessing and finalizing that plan to really maintain the profitable future of our model and align it with the today's conditions. The benefits we quote of 7 to 8 cents are on an annualized basis and really position us going into 2004. So again, I think what Mitch is explaining is that we gave the step-by-step assumptions we had in getting to our guidance for this year. Those parts are moving around, and that's part of the beauty of our model, is those parts can still move around and we have still got a challenge to get to the 45 to 55 cents guidance. But we got enough opportunity to get there. And I think, Rich, what you really are getting to is, what happens if transactions remain flat or stronger and the mortgage market is better, and the answer is clearly we drop it to the bottom line and deliver it in excess earnings. That's clear.

<Q>: Okay. I mean, it clearly looks like the mortgages, the forecast is better than what it was in January. That was one point. But anyway, on to the next question. I guess I am going to cheat here but its got two parts. Looking at market share and, for example your number trades looked down less than your peers or competitors. On sources, we're are thinking about trading being down say 14% to 18%. So when we look at the commission line, the brokerage commission line, its down right in the middle of that range, down about 16%. So I guess my question is, is this incremental market share that we are taking the active trader segment? Is it actually increasing the revenue line? We know trades are holding in there, but what about revenues? A little bit on the banking as well. If you look at the segment information, you had banking revenues up 7%, but you had expenses up 10% from quarter to quarter. So I am just trying to look at how, I guess it's two separate questions, but how would you address those?

<A>: They are. Let me have Lou answer the first question in respect to the brokerage and then Arlen and me answer the banking question.

<A>: Yes, first of all, with respect to brokerage market share, we are certainly happy to see ourselves gaining on the transaction side of that business and see ourselves outperforming there. Clearly, our average commission per transaction is declining. That's very much what we intended with our "Power of 9" campaign as you are well aware, we've tried to segment and go after a segment that still remains fairly stable in this environment, the active traders segment. We delivered a value proposition to them that included more aggressive pricing along with speed and quality guarantees. So it's working there exactly the way we want it to. We intend to really continue that approach to drive increases in market share. Pricing will be one component of that, not the only component.

You are probably also aware that we extended that "Power of 9" campaign to options trading in the last quarter, and I think as Mitch reported in the script, we have seen options trading amongst active traders as a percentage of active trader total trades increasing about 12%. We intend to continue to be aggressive and grow that space. We want to be known as a place for options executions for active traders and want to dominate that space. Those of course generally speaking generate higher commissions. So we hope to mitigate the effect of some of these prices cuts by going after that type of product.

Arlen, do you want to speak about the banking. On the banking side of things, the first reason for the change really was all around the corporate allocations, which we are just starting to work through here, as both Mitch and Len discussed. But also, we are on the banking side in a ramp up phase as we're looking at new lines of business that are helping to increase our recurring sources of revenue and interest income. So for example, you know from following our story that we don't just jump into something new. So while, for example, we had just started our credit card business, before we really go out with it in a major way, we have to build up the infrastructure to be sure that we can handle what we want to do and be sure that we can manage the risk appropriately. It's the same thing not only in credit cards but as we are increasing the auto side and home equities. In addition, there was the rolling in of Ganis, and that really had a substantial G&A increase for us. Finally, we increased our marketing spend. And we are very pleased to see what the results were as it went quarter to quarter.

<Q>: Ok. I can ask more offline. I just wanted to thank you for the more deliberate pace of the beginning of the conference call as well.

<A>: My pleasure. Thanks.

OPERATOR: Mike Vinciquerra with Raymond James

<Q>: Thank you. Like Rich I've got multiples, but I'll try to stick to two here. The first one is just on mortgage warehousing. I just trying to get a feel, possibly if you can share with us what the net interest income was on the warehousing of loans. Obviously if you're carrying a billion plus, say, per month in loans held for sale out of your retail operation, that will have some impact on the margin because of the steep yield curve right now. And the second question, I just wanted to get a feel for the, actually I have lost my train of thought. Why don't you answer the first one I will come back with the second one. Thank you.

<A>: You better come back fast because we don't divulge what you asked for in the first part of the question. So what was your second question, Mike?

<Q>: Okay, second one is actually regarding Dempsey. We just listened to the LaBranche (NYSE: LAB) call earlier. Can you just clarify for us the similarities and differences between Dempsey's operation versus a LaBranche on the NYSE. Obviously, you have got the captive order flow from your retail system, but give us an idea about how they compare, cause obviously Dempsey did have a challenging quarter, much as we saw from some of the other specialists. Thank you.

<A>: I am going to have Lou answer the question, but I think as a highlight, because it's easier for me to sort of help the success of Dempsey before I turn it over to him, because it was his baby which we acquired. We have continued to be profitable in Dempsey. So when you look at lots of the other competitors in the market space, they are singularly becoming unprofitable. Notwithstanding that, Dempsey is still a bright and shining spot for us and remains profitable as one of our business line in the brokerage. Notwithstanding its profitability, it clearly has significant value, as you pointed out, to us as a result of internalization and the benefits that we've gotten there. But let me turn over to Lou and let him walk you through it. From a structural standpoint, the biggest difference between any regional specialist or third market trading firm versus the New York Stock Exchange is that those market centers attract order flow on the basis of offering executions at the national best-bidder offer. We survey all marketplaces and provide executions on the basis of the best-bidder offer in any market center. Somewhat ironically, that makes us lessabl e to see something as captive order flow, because execution quality is what is paramount not only to E*Trade but many of the other retail order sending firms, and there are 130 of them that send in to Dempsey & Company. So we fight for that order flow on the basis of execution quality, and it's as

true with the internal order flow as it is from other order sending firms. Having said all that, Dempsey and LaBranche have in common the fact that we have had three tough months. It is a very difficult market. Generally speaking, over a three-month period, you would see some up-tick somewhere for a week or two or three within the period. We really did not get much of that in this quarter. As Mitch said, the entity remains profitable. It's got a highly variable cost structure, which ensures us that even at these levels, it will remain profitable. But its core to our business. In a tough market, it is a defensive play for us. As you may also be aware, if you don't have an internalization mechanism, there are many market centers that are beginning to charge to execute order flow. So we think we are well positioned to be defensive there as well to protect the economics of that order flow for E*Trade. That's really about the size of it.

<Q>: Okay, I appreciate that. And do you mind if I can just come back for one second on the previous question. Can you at least let us know did the NIM (net interest margin) at the bank actually improve because of the warehouse lending? I would assume that has to be a yes.

<A>: It's Mitch, and the answer is, it has a de minimus impact when you look at it. But let me answer your question a different way, which is I think what you are really get at. Margins in our mortgage business widened quarter to quarter. So in Q4, if you look at our pricing of last year on average it was about a 189 basis points in terms of margin. It widened in Q1 to 195 basis points. A part of that would really be shown in the income, which is in the mortgage operations line. You saw a widening of margins. And we as we have entered into Q2, they have remained relatively flat and consistent with what we have seen in Q1.

<Q>: I appreciate that. Thank you.

OPERATOR: Rob Sobhani with Smith Barney

<Q>: Actually this is Glenn Manna. I just have a quick question on the bank accounts. How many of those accounts came from the Amicus transfer. Because that closed early in March, right?

<A>: Yes, it did. Amicus was about 6,500 accounts.

<Q>: Thank you.

OPERATOR: Jed Gore with SuNova Capital

<Q>: Hi, Jed Gore with SuNova Capital. Great quarter, guys. Just a question on the charge. What percentage or what portion of this is cash versus non-cash, or is the whole charge a cash charge?

<A>: Let me turn it over to Len. We added up to 120 million. About 30 million of that we anticipate of being a cash charge. Not all of that will be upfront, that will be spread out over the time. With the anticipating savings that we are getting from that, that will be a payback within 12 months.

<Q>: So, 90 million is non-cash?

<A>: Correct.

<Q>: And is any portion of that goodwill? Or is that something else on the balance sheet?

<A>: No. None of that is good will.

<Q>: Got you. Thank you very much.

OPERATOR: Greg Macosko with Lord Abbett

<Q>: Yes, thank you. Could you talk about the interest rates, the spread, on a pro forma basis? I believe it was 160 basis points at the end of last quarter? I assume then it went down?

<A>: Our spread at the end of the last quarter was 140 basis points. We then acquired Ganis right at the end, and we said at that point that we expected an increase of 20 basis points on a pro forma basis. We have gotten that from Ganis. But that being said, the same type of macroeconomic factors that drove our spread down in Q4 originally are still in play here. We are still in the same kind of environment that is leading to greater and greater mortgage volumes, as interest rates stay low. So you really have a choice. Either you say that you are content with your spreads being where they are, at least initially, or you try to take other types of risks. That's one possibility. That's something that we have said over and over again that we are not willing to do, we are not willing to go down that credit spectrum. But the other thing that we are doing is that we are constantly optimizing our balance sheet, we are looking for better mixes of assets, better types of assets to put on our balance sheet. You'll see, for example, if you see the movement as we moved out of mortgage whole loans at MBS and into ABS and more consumer finance assets, you will see that that's why our spread didn't go down nearly as much this quarter as it would otherwise could have. The other thing is that we are looking to add new asset classes. We are out there looking. We don't base our model on it, but it is something that we want to do. But we have, as those of you who follow our story know, very strict guidelines that we follow when we are looking at an acquisition, and if it doesn't meet our credit criteria and satisfy due diligence 100%, we just wont do it. So I'll give up spread every day rather than putting our institution at risk.

<Q>: I see that the automated tellers, I think, went up 3,500, and also, what was the breakeven on the brokerage in terms of number of transactions?

<A>: The ATM machines went up because we closed in our purchase from XtraCash, of our portfolio of 3,500 machines. And that's quite simply is how it went up. We closed that deal in the middle of February, and as to brokerage I will turn it over to you. The breakeven on brokerage continues to be about 63,000 transactions a day. I think that's consistent with what you have heard from us in the past. Obviously the restructuring, we believe, will help us drive that number down more in the future.

<Q>: Okay, thank you.

Operator: Thank you. This concludes the Q&A session. Back to you Mr. Caplan.

Great. Thanks everybody for joining us and we look forward to the next quarter.

Operator: This concludes the first quarter 2003 conference call for E-Trade group Inc. Please disconnect the lines at this time. Have a nice day.