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MANAGEMENT DISCUSSION SECTION

Operator

Welcome to E*TRADE FINANCIAL Corporation's Fourth Quarter and Year-end 2003 Earnings Conference Call. I've been asked to begin this call with the following safe-harbor statement.

During this conference call, the company will be sharing with you certain projections or other forward-looking statements regarding future events or its future performance. E*TRADE FINANCIAL cautions you that certain factors including risks and uncertainties referred to in the 10-Ks, 10-Qs, and other reports it periodically files with the Securities and Exchange Commission could cause the Company's actual results to differ materially from those indicated by its projections or forward-looking statements.

In this call, E*TRADE FINANCIAL will discuss some non-GAAP measures and talking about its performance. You can find the reconciliation of those measures to GAAP in the Company's press release, which can be found on its website. This call is being taped. The recording will be available by telephone beginning at 10:00 a.m. Eastern Time today through 9:00 p.m. Eastern Time on February 6th. The call is also being webcast at www.etrade.com. No other tape recordings of this call or copies of the taping are authorized or may be relied upon.

I'll now turn the call over to Mitchell Caplan , Chief Executive Officer of E*TRADE FINANCIAL Corporation, who is joined by Jarrett Lilien, President and Chief Operating Officer and Rob Simmons, Chief Financial Officer. Mr. Caplan.

Mitchell Caplan , CEO

Thanks everybody for joining us this morning. By any measure, 2003 was an outstanding year for E*TRADE FINANCIAL. We created shareholder value by delivering the best financial result in the Company's history. We introduced innovative market-leading products and services. We leveraged technology to create customer and competitive advantage and we have positioned ourselves to provide still more value to our customers and our shareholders in 2004 and beyond.

As we come away from 2003, 2 key themes resonate. The first, that our business model produces superior results; and the second, through discipline and hard work, we can achieve great things. We've often stated that our integrated model succeeds in all kinds of economic climates. In 2003, we saw volatile times, moderate activity in equities, and high volumes in mortgages in the beginning of the year, and then substantial activity in equities and low mortgage volumes at the end. We delivered strong results throughout.

In the first quarter, as equity markets languished, our bank generated greater profits than the brokerage. By the fourth quarter, the brokerage business was generating substantial profits while our bank continued to produce a steady stream of recurring income. The driver into our business model is our retail brokerage. The brokerage has been and continues to be the primary point of

contact for the majority of our customer base. It is the hub of E*TRADE FINANCIAL. Around this hub, we have strategically added complimentary products and services. We have demonstrated that we enhance the company's profitability by surrounding the brokerage with banking and lending products and services that are accretive to earnings.

We have executed on our strategies with discipline and rigor. We have focused on only those activities which adhere to our core strategy and during the year we made tough choices about which businesses and products to enhance and which to pare away. We have opportunistically looked at strategic acquisitions, while adhering to a highly disciplined approach. Throughout, we have applied the same exacting standards to our acquisition process as we have to running our business.

Our business model and our focus have produced results. For the year, we produced a GAAP profit of \$0.55 per share versus a loss of \$0.52 a share a year ago. Also during the year, we produced earnings from ongoing operations of \$0.59 per share compared to \$0.45 per share a year ago. For this past quarter, we produced GAAP earnings of \$0.27 per share, up from \$0.17 last quarter and \$0.08 a year ago. These results include a strategic rebalancing in our corporate equity investment portfolio that generated an \$85 million gain and cash proceeds of over \$100 million in the quarter. On an ongoing basis, we achieved the high-end of our guidance range by generating earnings of \$0.18 per share, an increase from \$0.17 in the prior quarter and \$0.14 a year ago.

As we move into 2004 and beyond, we must continue to create value. We have been successful because we have been a customer champion. During this past year, we unveiled several market leading products and services; Mortgage on the Move, The Power of 9 Campaign for active traders, and last quarter our 12b-1 rebate program for mutual funds. In 2004, we will continue to leverage technology and cost efficiency to create superior value for our customers. We believe that our value proposition is resonating. We also believe that equity markets have recovered to the point where it makes economic sense to aggressively pursue retail investors. Accordingly, during 2004 we will increase retail brokerage related marketing by \$40-\$50 million from 2003 levels while still remaining within the context of our 2004 guidance. We will also focus on deepening customer relationships and we will continue to actively market programs like our 12b-1 fee rebate as we attempt to increase the amount of assets per E*TRADE household. All of these efforts are designed to build upon the retail brokerage, the hub of our franchise, and we've learned the importance of integrating our other products and services into this hub. The continued integration of products service and back-office operations will improve our customers' experience and also keep our operating model efficient and simple. I would like to turn the call over to Jarrett Lilien, President and Chief Operating Officer, for the details on our segment performance.

Jarrett Lilien, President and COO

Thanks Mitch. Starting with the Brokerage segment, we continued to benefit from strong retail investor activity and superior operational efficiencies. With the first full quarter benefit from our 2003 restructuring initiative, we have reduced our breakeven point to 45,000 trades per day, that's down from 50,000 trades last quarter. The reengagement of the individual investor has generated a sustained increase in trading volumes over the past 3 quarters. Total DARTs increased 6% sequentially in the fourth quarter and 46% year-over-year. Trading activity from our U.S. retail sub-segment experienced the strongest growth increasing 10% sequentially to 83,000 during the quarter. International DARTs increased by 3%, continuing the strong growth trend that we've seen over the past year, while professional DARTs were flat quarter-over-quarter. With rising trading activity levels, we've also experienced a strong increase in margin debt balances. Average margin debt in the fourth quarter increased 33% to \$1.64 billion, that's up from \$1.24 billion in the prior quarter and \$910 million in the year ago period.

Our continued focus on attracting and retaining higher value customers is also translating into increased asset levels. Customers added \$3.3 billion in new assets during the quarter; that's an increase of 37% versus last quarter. In addition, total client assets per active account increased 18% to nearly \$25,000. That significantly outpaces the general market appreciation as measured by the Wilshire Total Market Index, which increased 12% during the quarter. In addition, total client assets in investing accounts increased to \$70.8 billion in the fourth quarter, that's up from \$60.3 billion in the third quarter and \$41.6 billion a year ago. We view this growth in customer assets as an indication of our success in attracting and retaining higher quality customers through better service and a more comprehensive product offering.

Switching to the bank, we are quite pleased with the results from our banking group. We produced another strong quarter of earnings as we executed on our spread widening strategy and successfully managed through the mortgage industry's decline in volume. During the quarter, we improved net interest spread to 169 basis points, that's up from 133 basis points in the third quarter, and that significantly exceeds the 150 basis points target that we established on last quarter's conference call. The improvement in spread was driven primarily by the continuing implementation of our Sweep Deposit Account. In the fourth quarter, we swept \$1.5 billion from our brokerage customers' money market funds into our Sweep Account at the bank, bringing our year-end total Sweep Account balance to over \$4 billion. By replacing other borrowings with funds swept from brokerage money market accounts, we realized an immediate spread improvement. We intend to build on the success of the Sweep Account; we are refining strategies now to sweep up to \$3 billion of remaining brokerage, general money market funds into the bank. We view the Sweep Account as a product that more tightly binds our retail banking offering to our core brokerage franchise. The economic benefit from sweeping these remaining funds represents potential upside to our 2004 earnings guidance.

The bank also benefited from a larger balance sheet. During the quarter, the bank's total assets grew by \$2 billion and ended the year at over \$20 billion. This growth has helped produce additional net interest income at minimal incremental operational cost. We will continue to generate recurring and steadily increasing income in our banking segment by enhancing our suite of products and services that complements our core brokerage franchise, and we will continue the integration of bank and brokerage operations to create a better customer experience and produce cost efficiencies. This integration will deepen existing customer relationships, create valuable new ones, and enhance profitability. With that, let me turn the call over to Rob for the financial details.

Robert Simmons, CFO

Thanks, Jarrett. In the fourth quarter of 2003, we produced GAAP earnings of \$0.27 per share on net income of \$107 million. Net income from ongoing operations totaled \$68 million, or \$0.18 per share. Of the \$0.18 in ongoing EPS, \$0.11 was attributable to brokerage with \$0.07 from the bank. Brokerage earnings from ongoing operations increased by \$0.02 sequentially with increased DARTs adding \$0.01 and higher margin debt adding another. In bank, the \$0.07 we earned during the quarter was split between \$0.065 from our core bank earnings and \$0.005 of earnings from our mortgage business.

In total, bank EPS from ongoing operations during the quarter declined by \$0.01 sequentially as a result of a \$0.035 decline in mortgage earnings offset by a \$0.025 increase in core bank earnings. This increase in core bank earnings was driven by net interest spread, which increased to 169 basis points from 133 basis points in the third quarter. Of this 36 basis point improvement, 33 basis points were attributable to Sweep and Sweep-related benefits from lower liability pricing.

We exited the quarter with a spread run rate of 179 basis points and are ahead of plan to achieve our target of 200 basis points in bank spread by mid-year, which was the assumption behind the high-end of our guidance range. With the transition of our bank earnings from mortgage to spread

income now complete, we expect the bank to continue to produce steady earnings growth as we continue to widen spreads, grow the bank's balance sheet, and expand our consumer lending business.

Total consolidated net revenues for the quarter equaled \$383 million. Despite one less trading day during the fourth quarter, net brokerage revenues increased by 2% sequentially to \$242 million, or 63% of total net revenue. Net banking revenue declined 12% sequentially to \$141 million, or 37% of total net revenue. For the year, consolidated total net revenue equaled \$1.48 billion, a 12% increase over 2002.

Total diluted shares outstanding increased during the quarter to 421 million from 371 million last quarter. The increase is primarily due to the required "If-Converted" accounting treatment related to our subordinated convertible debt. Based on GAAP accounting, we consider the dilutive effect of the shares underlying the bonds every quarter but it has been anti-dilutive up until this point. Using fourth quarter results, they now become dilutive to earnings per share and therefore are included when calculating diluted EPS. Under the "If-Converted" method for the purpose of calculating EPS, we also add back to net income the interest and amortization expense net of tax of our convertible debt for the period.

We ended the fourth quarter with cash and equivalents totaling \$921 million. Free cash totaled \$650 million this quarter, a \$120 million increase over the prior quarter and a \$283 million increase over the prior year. Free cash as we define it represents cash held at the parent and excess regulatory capital at Bank and Brokerage and is the metric used by management in measuring business performance.

We remain very focused on credit quality at the bank. Net charge-offs for the quarter remained steady with the prior quarter at 44 basis points on total average held-for-investment loans. We increased provision as a percent of average held-for-investment loans consistent with the seasoning of our consumer loan portfolio and kept total loan loss allowance as a percent of non performing loans at a healthy 154%.

Our bank remains well capitalized as defined by the Office of Thrift Supervision with Tier 1 and risk-based capital ratios estimated at 5.92% and 11.30% respectively at the end of our fourth quarter. Operating margin from ongoing operations improved to 30% from 28% in the prior quarter and 26% in the year ago period. Selling and marketing expenses declined 8% in the quarter to \$39.6 million reflecting reduced bank-related marketing commensurate with the rollout of our Sweep Deposit Account. G&A declined 14% or \$10 million quarter-over-quarter to \$62 million. As we discussed last quarter, G&A in the third quarter included a \$6.8 million litigation expense primarily associated with the legal settlement in connection with our mortgage business. The remaining \$3.2 million sequential decline in G&A during the fourth quarter was attributable to lower legal expenses of \$1 million as well as lower occupancy and communication expenses, which was a direct benefit of our 2003 restructuring initiative.

Regarding our 2004 earnings guidance, we remain very comfortable with our range of \$0.70 to \$0.85 in GAAP EPS, which we established in December. At the bank, we continue to execute on our spread widening strategy, which is currently running ahead of plan as we discussed. As we've stated in the past, every additional 15 basis point improvement in bank spread translates into an incremental penny in earnings per quarter or about \$0.04 per year.

In brokerage, trading activity so far in the first quarter is also showing strong growth and is currently exceeding the assumption behind the high-end of our guidance range. In addition, margin debt balances are already near the high-end of our expected range for all of 2004. While we recognize that many of the key drivers of our business are already tracking ahead of plan, it is still very early in the quarter and the year. As a result, we are affirming and maintaining our 2004 guidance.

Should these positive growth trends continue, we see the possibility for significant upside to our estimates and we will revisit our guidance at the appropriate time.

The Company's 2003 results highlight the strength of our integrated brokerage and banking model. We successfully transitioned from bank-driven earnings in the first quarter of the year to superior brokerage earnings by year-end. Our ability to make this transition and deliver record results demonstrates the power of our model. With that, we now open up this call to answer your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. If you do have a question, you may press "1" followed by "4" on your touchtone phones. If you're on a speakerphone, we do ask that you please pick up your handset to minimize any background noise. And if at any point your question has been answered, you may remove yourself from the queue by pressing the "#" key. Our first question is coming from Colin Clark of Merrill Lynch.

<Q – Colin Clark >: Good morning.

<A>: Good morning

<Q – Colin Clark >: I thought the bank sweep would have had more of an effect on reducing your bank interest expense, but it looks like your bank interest expense increased slightly and your bank interest income increased substantially driven by the higher spreads. Can you provide a little bit more details around what drove those changes on the bank interest income and expenses and how those trends could be going forward? Thank you.

<A – Mitchell Caplan >: Sure, one answer, simple answer, larger balance sheet. So, you are probably assuming an \$18 billion balance sheet, we had a \$20 billion balance sheet. So, as a result, we had \$2 billion more in both average over the quarter interest earning assets as well as ending assets. So, that would obviously drive up both the revenue, the interest income and the interest expense. But when you parse through it, the pickup or the shift in the 36 additional basis points, as Rob was saying, 33 of them are directly related to lower liability costs as opposed to the asset side of the balance sheet.

<Q – Colin Clark >: But it – but it wasn't reflected in terms of your interest expense dropping, it actually increased.

<A – Mitchell Caplan >: It can't be because you also grew your liability by \$2 billion.

<Q – Colin Clark >: Sure.

<A – Mitchell Caplan >: So, if you back it out, that's what you will find in – I am happy to walk you through it offline.

<Q – Colin Clark >: Sure, no that makes sense. Thanks. Looking at your gain on sale revenue at the bank, do you think the fourth quarter figures are a reasonable run rate going forward or do you expect improvements or further declines off that number?

<A – Mitchell Caplan >: Well, let me tell you, as we gave guidance for next – for the year that we are in now for '04, we actually assumed that there would continued declines of a little bit off of what you are seeing. But basically our assumption is that you would see a run rate pretty consistent with where we were in Q4. As we've entered the first couple weeks of January, that's pretty much what we are seeing and our expectation at this point, as you can see, is with a half a penny of earnings from the mortgage business in Q4. We view it as largely insignificant to the total going forward, i.e., we feel like we have completed the transition from mortgage-related earnings back to core spread.

<Q – Colin Clark >: Okay and lastly, in terms of the brokerage volumes currently in January, can you provide any more insight on where those are tracking?

<A – Mitchell Caplan >: Yep. Yeah, I can. You know, I think the industry at large has been sort of abuzz because they have been pretty significant. We've seen between 35% and 40% increases in our DARTs off of the Q4 run rate; so it is up pretty significantly. I suspect as soon as you model it, what you will discover, as Rob said, is that, yes, at current we are on a transaction basis already

ahead of the high-end of our plan of 160,000 a day to reach the \$0.85, our margin debt is, you know, right at the \$1.8 billion, which is at the high-end. Our average commission actually for the first time in a while increased this quarter and as you can see on the spread, we are somewhere, you know, exiting 179, I think we were hoping initially that we would get to 200 basis points by the very end of Q2 – to be at a 200 basis point run rate at the end of Q2 in order to be at the high end of the range and obviously we are a bit ahead there as well.

<Q – Colin Clark >: Okay, great, and just one final question. Regarding the TD Waterhouse merger talks, can you provide any more insight on what – what control issues were the real sticking points? And if these issues could potentially be overcome, you know, would you categorize the possibility of future merger talks with TD Waterhouse in the, kind of, high, medium or low probability range?

<A – Mitchell Caplan >: Yeah, let me say I'm not going to answer the question at a high level, okay.

<Q – Colin Clark >: Okay.

<A – Mitchell Caplan >: What I will tell you is that I think, as been reported, our view and I think the view of TD is that they were around governance issues. What I'm most proud of for our team is that we were incredibly disciplined about this process. In our mind, we understood the deal that we were willing to do that would create shareholder value, and we understood the deal that we weren't willing to do because we believed it wouldn't create shareholder value. And notwithstanding the unfortunate nature of a leak in the paper, we were disciplined about not allowing us to be under any pressure to continue to go through this process and make the right decision for our shareholders and that's exactly what we did. What I will tell you is as we look forward in '04 and beyond, I believe you see an industry in transition. One of the things that's the most important to Jarrett and I in leading this company is that we remain nimble as an organization and that we are at the forefront and take advantage of any of those opportunities, whatever opportunity may present itself, whether it's TD Waterhouse or otherwise and we intend to continue to look at everything and be disciplined as we were about this process.

One of the nicest things I think about this, though, is, you know, as you go through a process where you think about taking your business and melding it with another business, you always look at the strengths of your model and you come away feeling good about it and you look at the opportunities to change your model. And one thing I think that we recognized in Q4 that was really meaningful, and Jarrett drove this, was the power of integrating banking to brokerage through Sweep. We talked about it on the last call. We saw it as we looked at trying to put businesses and business combinations together, and I think it will drive a lot of our forward thoughts as we've talked about on this call as we think of our brokerage as a hub and we think about the leverage that we can pull out of that brokerage hub.

<Q – Colin Clark >: Do you think the \$3 billion incremental Sweep is a first or second quarter event?

<A – Mitchell Caplan >: We actually haven't committed to it all. We've said that it's complete upside to the numbers. We are quiet comfortable with getting to the 200 basis point spread without that because what you will begin to see as you enter into this year and in Q1 is you'll get the full effect of the \$1.6 billion that was swept in – in only the month of December. You'll also begin to see spread widening as a result of prepayments slowing in the industry. So, we feel just based on those two dynamics alone, we are quite comfortable with 200 basis points. Therefore the additional \$3 billion is upside and we see it is as somewhere in the neighborhood of a penny and half on an annual basis to our overall earnings.

<Q – Colin Clark >: Great. Thank you.

<A – Mitchell Caplan >: A penny and half, sorry, per billion dollars.

<Q – Colin Clark >: Got it. Thanks.

Operator: Thank you. Our next question is coming from Rich Repetto of Sandler O'Neill.

<Q – Richard Repetto >: Yeah. Hi guys. First question on the DARTs, could we – you said 35 to 40% is that both U.S. and total DARTs running January month to date?

<A – Mitchell Caplan >: It's retail DARTs. So it's U.S. and International, because now we are going to start looking at it – and as you've seen International grow and it has become quite significant both in its growth rate and as a percentage of the whole, we look at it as retail.

<Q – Richard Repetto >: Okay and then, Mitch, when you went through the first – the front part of your remarks you talked about ad spend increasing \$40 to \$50 million and being absorbed in the guidance. I'm assuming that's absorbed into the expense side of the guidance, not into the EPS?

<A – Mitchell Caplan >: That's correct. It has absolutely no impact on our guidance for EPS, right. It's just a function of our – I think in the past as you know, Rich, we've said it doesn't make sense to market, we were marketing at a level where we were quite comfortable based on where we thought people were being responsive. We obviously have seen growth in accounts of value that's about twice that of what the accounts are leaving and over this last year and as well, we feel really good about where we've gone this year in market share gains. We now believe that there is solid resiliency out there in the economic environment, solid upside with respect to retail brokerage transactions and we think it's time for us to start having a share of voice in marketing more again.

<Q – Richard Repetto >: Okay just, I guess well another follow-up is, on the Sweep into the bank, is there potential for as people invest more in equities – is it a potential for this to reverse at all?

<A – Mitchell Caplan >: Actually let me have Arlen talk you through that because there are some pretty interesting stats.

<A – Arlen Gelbard>: Yeah. Rich, you know, one would think that, you know, as the markets pick up, people take the money out of the Sweep and invest it in equities, but in fact what we're seeing is and what history bears out, is that as the market picks up, people actually put more money into the company and more money goes into the Sweep. So, as the markets turned around, we have found something, you know, pretty fascinating. Our organic flows in Sweep alone – you know, we transferred \$2.8 billion from the brokerage to the bank in September and another \$1.4 in December. But organic flows alone in Q4 were \$214 million deposited into the bank and then just in the first 2 weeks alone in January, we saw another \$165 million inflow in organic flows. We modeled it very conservatively in terms of flows coming in, but what we're seeing actually is really strong healthy organic inflows.

<A – Mitchell Caplan >: So and to be more specific, Rich, what's pretty amazing to me is the number that Arlen talked to you about in Q4 happened almost entirely in the month of December and the inflows that we've seen in the first 2 or 3 weeks of January, have already accomplished 25% of what we thought would be organic inflow during all of 2004. So we're seeing very, very strong growth organically in the Sweep Account in addition to the ability to sweep more.

<Q – Richard Repetto >: Okay.

<A>: And Rich just to beat that one to death, I mean if you do go back and you look at the last, you know, 10 years in improving markets you naturally see all balances rise as Arlen said. So it's not like this is some new trend, this is what happens in an improving market environment.

<Q – Richard Repetto >: Okay. And I guess the very last thing, just want to comment – the guidance you know, all the key drivers are either at or well above the guidance, so when you say you are conservative, I think it is very conservative.

<A – Mitchell Caplan >: Listen it's 21 days. It does not a quarter or a year make, so as we continue we are going to be prudent about this process. I would think you want us to be prudent. As we continue to see trends and they get validated for us, we'll clearly revisit the guidance issue.

<Q – Richard Repetto >: Great, thank you.

Operator: Thank you. Our next question is coming from Mike Vinciguerra of Raymond James.

<Q – Michael Vinciguerra>: Thank you, good morning. I want to ask on the Sweep one more time, just trying to get my hands around the balance sheet at the bank, Arlen, if you could just give us an idea of when that \$3 billion comes over whether it be the first quarter, second quarter, whatever, do you anticipate that the bank balance sheet continues to grow or is simply going to be replacing some other forms of deposit financing or other financing you have there to lower your cost of funds overall?

<A – Arlen Gelbard>: It will be a combination of both, you know, we've talked about the fact that in 2004 we expect our balance sheet to grow somewhere between \$1 billion and \$2 billion over the course of the year. But we will also be using it to replace other wholesale borrowings, similar to what we've done in the past.

<Q – Michael Vinciguerra>: Okay and wanted to get a feel for – one thing that's continued to bother me a little bit is that the ongoing decline in both bank accounts and brokerage accounts, I know you said, Mitch, that you're going to be increasing your marketing spend here in the next few quarters, but you've seen other competitors continuing to grow their accounts. Can you give us some idea about the dynamics on why you guys have continued to bleed a little bit while the rest of the industry seems to be, you know, improving?

<A – Mitchell Caplan >: Yeah, I am happy too, so at the highest level, I think, there are a couple of dynamics. If you look at our gross account growth, it is as or better than almost anybody in our competition. Right, so, if you look at what we're spending and what we're getting in gross new accounts, it's really at the very high end of the range. So, I think there are 2 things that are driving the net negative. One is how we now define inactive accounts. So, as you know, we have got the most conservative and stringent definition in the industry as to what an active account is and so as a result of that, we probably have a bigger number of what we define as inactive accounts than our competition resulting in a net negative. In addition to that, we have had outflow and we have had outflow most significantly in the bank. If you look at it, it is almost exclusively with CD customers and I can assure you that you will see growth in our overall account base this year, it is something we are very focused on and we are going to attack. It will be in our core franchise business. On the brokerage side, as you understand, the more Sweep you have, it is still only considered one account, not multiple accounts; and I'm quite confident from what I've learned as we've run the business through this year that with this brokerage hub, there is very little value in higher cost CDs. And so, at the end of the day, if that requires a continued decline in bank accounts, I'm very comfortable with it. As long as we continue to grow Sweep and Sweep balance and we also grow accounts in our transactional area, which we have been, it is a net positive which is really driven by checking as a cross-sell to our brokerage hub.

<Q – Michael Vinciguerra>: Okay, thank you, and lastly I just want to ask on just – on this month's results, you kind of gave a 35-40% type of number, you mentioned international and domestic, does that include the professional group or is that --

<A – Mitchell Caplan >: It does not. That is – that's what we view as pure retail.

<Q – Michael Vinciguerra>: Okay, now because you report the DARTs including that, is the trend similar for professional or is it substantially different?

<A – Mitchell Caplan >: It is – what are we up? I think we are up about 10-12% for professional so far in the first – whatever it was, the 20 days or so.

<Q – Michael Vinciguerra>: Okay, thank you.

<A>: But I'd add on professional, we are also, you know, well on track that that needs to be budgeted expectations for that business segment.

<A – Mitchell Caplan >: Yeah, I mean, we are seeing strength in every one of our segments for the moment in excess I think of what pretty much anybody expected.

Operator: Thank you. Our next question is coming from Richard Herr of KBW.

<Q – Richard Herr>: Hi, good morning.

<A – Mitchell Caplan >: Good morning.

<Q – Richard Herr>: Quick first question. Was there any premium amortization during the quarter, any write-downs on the MBS?

<A>: Not to speak of. If you look – if you want to – if you look at the amortization line item, it did increase a little bit as we did some true ups to some of the amortization assumptions underlying our intangibles.

<Q – Richard Herr>: Okay, so prepays are basically kind of peaked and are kind dropping now or kind of declining now?

<A – Mitchell Caplan >: No, actually to be clear what happens is, as you know, we are not really in –we are really in a net neutral position with our MBSs. So, we don't have either a significant premium or discount position. So, the prepayments should have very little impact on that, what they will have an impact on is obviously spread widening because of just the issues of the opportunity cost of reinvestment and we have not yet seen the most significant spread widening in connection with the prepayment slowdown because we are a master servicer and sub-service. We are in somewhere between a 30 and 60 day lag for all receipts. So, we yet – we have not yet seen the full benefit of what the industry as a whole has experienced which is significant slowdown in prepayments and we would expect to see a lot more of that as we go into Q1.

<Q – Richard Herr>: Also a question on credit quality. It looks like it's improving quarter-on-quarter and year-on-year in terms of charge-offs and NPLs. Why the continued increase as far as provisioning and allowance levels?

<A – Mitchell Caplan >: Because we are just being prudent as we look at it. We have a policy, our policy deals with – in terms of net growth of mortgage whole loans, how many – what basis points of reserve and the same is proved for the projected one year forward losses in connection with all of our consumer assets. But actually I agree with you. We feel quiet comfortable with the trends that we've seen and we feel good about our level of reserves.

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

<A – Mitchell Caplan >: Absolutely.

Operator: Thank you. As a reminder, if you do have a question you may press "1" followed by "4" on your touchtone phones at this time. Our next question is coming from Jed Gore of Sunova Capital.

<Q – Jed Gore>: Hi, thanks for taking my question. Good morning.

<A>: Good morning.

<Q – Jed Gore>: Great quarter. You guys have come a long way.

<A>: Thanks a lot.

<Q – Jed Gore>: One question. You have been good about talking about trends in January and I apologize if I missed it, but have you talked about mortgage volumes in January and where are those tracking?

<A – Mitchell Caplan >: Yeah, I mean, we are seeing mortgage volume as you – I think as you saw, we went into a pipeline into Q4 with about \$500 billion. We went into Q1 with about \$300 billion, so not materially off and I think the industry what we are seeing in our mortgage business is volumes and I think operations pretty similar what we experienced in Q4.

<Q – Jed Gore>: Thank you.

<A>: Hey Jed, one other data point there, just going from November to December, the, you know, the mortgage originations actually picked up slightly from \$285 million in the month of November to \$296 million in the month of December.

<A – Mitchell Caplan >: Right. I think you are seeing one last gasp, although quite frankly, one of the decisions that Jarrett and Arlen and I had to make early on was did we want to try to squeeze the last dollar out or did we want to get costs out of the business, and so from a capacity perspective, we chose to take costs out of the business. And so, therefore, we may not be trying to squeeze every last dollar out. We believe our goal was just to successfully transition away from mortgage volume and into spread.

<Q – Jed Gore>: Thank you.

<A – Mitchell Caplan >: Absolutely.

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

<Q – Charlotte Chamberlain>: Good morning.

<A>: Good morning.

<Q – Charlotte Chamberlain>: By our calculations your DARTs were down about 10% in December over November. Ameritrade yesterday suggested that theirs were down 2%. And I was wondering if you could explain the difference there and then also can you give us a little color on what's happening with Dempsey and what's happening with your internalization and if the increase that you are seeing in January if that's primarily coming from bulletin board issues or is it retail rekindling their love affair with telecom and finally with respect to the TD discussions, I know that you've said that you can't talk about it, but I was wondering if you could kind of give us a little color. I mean, was it more of an au revoir or an a bientot? In another words did you – can you tell us if you parted with good bye or was it more see you later alligator kind of thing? Thanks.

<A – Mitchell Caplan >: Okay. Let me start with the TD which is I'm not going to comment other than telling you that I think that any good and prudent businessman would, you know, whether we can do something with TD, whatever TD decides to with their Waterhouse franchise, I think the most important thing is you always want to be amicable. Think it's just way to operate in the business environment and it's the right way to try to build value for all companies, beyond that I don't really want to comment on TD.

<Q – Charlotte Chamberlain>: Okay. Great.

<A – Mitchell Caplan >: Okay. As you look at the DARTs, I think the most important metric is you are right, we were down 10%. That includes our professional, which had the biggest decline. So, when you look at U.S. retail, we were down about 6% compared to Ameritrade being down about 2.3. One of the things that we also focus on obviously is our revenue per commission. So, we want to make sure that our transactions are growing and that we're growing in market share but that we're also growing with revenue. Because it's significantly important to us to make sure that wherever DARTs grow they are growing with the corresponding revenue. And so that's pretty crucial to us as we think about growing our business and how it is we decide to market and whatever marketing avenues we decide to employ. So, that's sort of how we're thinking about the month of December. We feel quite good about what we've seen in January and based on the guidance that we've given you so far and as we said, we also intend to increase our marketing spend because we think there is an opportunity right now.

<A>: And then on top of that you know, month-to-month, we look at it obviously, but, you know, what we've really been focusing on is quarter-to-quarter and we continue with our market share gains in terms of DARTs there.

<Q – Charlotte Chamberlain>: You attribute their gain to the fact that, from what I could tell, you were pretty much dark as far as advertising was concerned, whereas we got to see those God awful Ameritrade ads almost incessantly.

<A – Mitchell Caplan >: Well I think your point is well taken is that we were pretty dark. We viewed it as a very quite time where people were going to withdraw certainly around the holidays and I think that was a part of it. So I agree with you. As you move over to the question on Dempsey, it's a really great question, it's pretty intuitive because we look at Dempsey to try to get a sense of what we think is happening in the industry as a whole. You are right, what we have experienced is, a significant increase, their margin is down obviously because of bulletin boards, because the percentage is up; net-net they were up couple million bucks, about \$2 million bucks in revenue quarter-over-quarter. So they are actually doing quite well, our level of internalization had stayed pretty consistent right at the 50%. We haven't changed that in any meaningful way for quite some time now. So one of the questions we always have is, what does this mean for the industry as a whole when you look at the percentage of bullies growing, compared to some of the other traditional you know non – more traditional stocks as opposed to bulletin boards. And so one of the things that I think Jarrett and I look at pretty consistently is every week we see a by-sell and when we were at the most speculative environment a couple years ago, what was interesting as you saw, bullies as a percentage being even significantly higher than where you are now and you also saw a by-to-sell ratio that was 3 or 4:1, I mean people were consistently buying. What we have experienced with our customers is we see about a 1:1 sell to buy, and there are a number of weeks where sells outpace buys. So we've seen our customers pretty healthily selling as well as buying whatever stock it is, whether it is a bulletin board or otherwise.

<Q – Charlotte Chamberlain>: Okay, great, thanks again.

<A – Mitchell Caplan >: Absolutely.

Operator: Thank you. And our last question is coming from Justin Hughes of Hovde.

<Q – Justin Hughes>: Good morning, guys, thanks for fitting my question in here.

<A>: Sure.

<Q – Justin Hughes>: First of all, just following up on Dempsey and the principal transaction lines specifically, I was just wondering why that line was flatter, are realization rates coming down? Quarter-to-quarter, it was \$64 million to just under \$65 million, so pretty much flat.

<A – Mitchell Caplan >: Yeah, absolutely. So, basically as I just told you, you are in a place where Dempsey was up a million or two and what we saw was our institutional business being sort of down a bit and mostly the institutional business was down in the soft dollar area. We saw a little weakness there. We saw strength in our direct access and so that was sort of the net impact of all of it.

<Q – Justin Hughes>: Do you think that's because of regulatory issues surrounding soft dollars?

<A – Mitchell Caplan >: I think it is a part of it and so as you know, we have long been trying to reposition our institutional business away from soft dollar more to the direct access and we are now at a point where it is becoming a much more significant component of the whole for us in institutional.

<Q – Justin Hughes>: Okay. Second of all, how much free cash flow do you expect to have by the end of this year? Or not free cash flow but just free cash.

<A>: Let me answer that, Justin. It really is going to depend on what happens with growth. As you know, the way that we report free cash is net of any regulatory requirement. So, for instance, this last quarter, you know, we deployed significant new regulatory capital in order to grow both the bank as well as support the higher levels of margin debt in the brokerage business. So, we haven't explicitly come out with, you know, with a forecast for the end of the year for that. But you can expect that we'd continue to generate significant cash earnings in the form of EBITDA, that then we'd have the ability to deploy either in growth of the business or in other things.

<A – Mitchell Caplan >: And I think a great way to look at this, Justin, is where are Jarrett and Rob and I comfortable as we look at this and I think certainly based on the level of cash flow that we now kick out of our business pretty regularly and consistently, if we're at \$500 million of free cash at the corporate level, I think that all of us would agree that we are very comfortable there. So, it's why we implemented a program where we said we were going to buy back \$100 million worth of stock and so to the extent that we continue to generate cash, I think it's our obligation rather than to build a war chest to take those dollars and either buy back our stock, buy back our debt at a discount if that's an opportunity or reinvest in one of our businesses and generate a higher ROE for the overall company.

<Q – Justin Hughes>: Okay. So \$500 million is what you feel comfortable with?

<A – Mitchell Caplan >: That's correct.

<Q – Justin Hughes>: Okay. That's exactly what I was getting at.

<A – Mitchell Caplan >: I know.

<Q – Justin Hughes>: And then just last 2 questions. There was a restructuring charge of \$9 million, is this the last one?

<A – Mitchell Caplan >: Yeah, we are done.

<Q – Justin Hughes>: Okay.

<A – Mitchell Caplan >: And Rob, why don't you give some color on it.

<A – Robert Simmons>: Yeah, just to clarify, there's a number of different pieces to that Justin. About \$1.5 million is a true up from our original 2001 plan that was related to facilities and sub lease assumptions. There is about a \$3 million true up to our 2003 plan that, again, was primarily around sub lease assumptions for facilities. And then we also exited our institutional research business and so we had about \$5 million in exit and other activity from exiting that business and some other international charges. So...

<Q – Justin Hughes>: Okay, that was the European research group?

<A – Robert Simmons>: That's right.

<Q – Justin Hughes>: Okay.

<A – Mitchell Caplan >: One of the things that was important I think to us is that we had guided that we thought it would only be a couple million more bucks for 2003 restructuring that we announced and it was and as far as I'm concerned, we are done with the restructuring.

<Q – Justin Hughes>: Okay, great. And then just final question. Are you still on track to switch to national accounting next quarter?

<A – Mitchell Caplan >: You bet.

<Q – Justin Hughes>: Okay, great. Congratulations on a great quarter.

<A – Mitchell Caplan >: Thanks a lot.

Operator: Thank you. This concludes the Q&A session. I'd like to turn the floor back over to management.

Mitchell Caplan , CEO

Thanks very much for joining us and we will speak to you next quarter.

Operator

Thank you. This concludes the fourth quarter and year-end 2003 conference call for E*TRADE FINANCIAL Corporation. Please disconnect your line at this time and have a nice day.

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