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FORM 10-Q

E TRADE FINANCIAL CORP - ETFC

Filed: May 15, 2000 (period: March 31, 2000)

Quarterly report with a continuing view of a company's financial position

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
for the quarterly period ended March 31, 2000

Commission file number 1-11921

E*TRADE Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	94-2844166
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

4500 Bohannon Drive, Menlo Park, CA 94025
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (650) 331-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

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

As of May 10, 2000, the number of shares outstanding of the registrant's common stock was 291,712,105.

E*TRADE Group, Inc.
Form 10-Q Quarterly Report
For the Quarter Ended March 31, 2000

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UNLESS OTHERWISE INDICATED, REFERENCES TO "COMPANY" MEAN E*TRADE GROUP, INC. AND ITS SUBSIDIARIES.

E*TRADE(R) and the E*TRADE logo are registered trademarks of E*TRADE Securities, Inc. All other products, trademarks or service marks mentioned in this document or any document incorporated by reference herein are trademarks or service marks of E*TRADE Group, Inc., its subsidiaries, or other companies with which they are associated or with which they have a business relationship.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including statements regarding the Company's strategy, financial performance and revenue sources, are forward-looking statements based on current expectations and entail various risks and uncertainties. The Company's actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this report. Readers are urged to carefully review and consider the various disclosures made by the Company in this report and in the Company's other reports filed with the SEC, including the Company's Annual Report on Form 10-K/A as filed with the SEC, that attempt to advise interested parties of certain risks and factors that may affect the Company's business. Readers are cautioned not to place undue reliance on these forward-looking statements to reflect events or circumstances occurring after the date hereof. The following should be read in conjunction with the Company's financial statements and notes thereto.

PART I. Financial Information

Item 1. Financial Statements

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E*TRADE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2000	1999	2000	1999
Revenue:				
Transaction revenues	$ 254,596	$ 90,524	$ 406,908	$150,844
Interest income	242,675	80,527	399,872	141,567
Global and institutional	41,384	29,308	75,083	57,414
Other	16,640	10,389	35,923	18,639
Gross revenues	555,295	210,748	917,786	368,464
Interest expense	(146,609)	(48,483)	(240,921)	(86,502)
Provision for loan losses	(1,256)	(490)	(1,793)	(770)
Net revenues	407,430	161,775	675,072	281,192
Cost of services	130,474	66,493	241,981	116,730
Operating expenses:				
Selling and marketing	177,484	78,174	307,164	135,883
Technology development	42,127	15,256	78,507	29,822
General and administrative	50,225	24,714	92,303	45,080
Amortization of goodwill and other intangibles	5,159	609	7,184	1,369
Merger-related expenses	24,599	--	30,386	--
Total operating expenses	299,594	118,753	515,544	212,154
Total cost of services and operating expenses	430,068	185,246	757,525	328,884
Operating loss	(22,638)	(23,471)	(82,453)	(47,692)
Non-operating income (expense):				
Gain on sale of investments	10,915	33,367	42,231	33,367
Unrealized gain (loss) on venture fund	(14,628)	--	10,825	--
Corporate interest-net and other	(5,353)	4,754	(7,300)	10,133
Total non-operating income (expense)	(9,066)	38,121	45,756	43,500
Pre-tax income (loss)	(31,704)	14,650	(36,697)	(4,192)
Income tax expense (benefit)	(8,923)	5,052	(9,620)	(3,429)
Minority interest in subsidiary	408	561	903	1,132
Income (loss) before cumulative effect of accounting change	(23,189)	9,037	(27,980)	(1,895)
Cumulative effect of accounting change, net of tax	--	(469)	--	(469)
Net income (loss)	(23,189)	8,568	(27,980)	(2,364)
Preferred stock dividends	--	60	--	120
Income (loss) applicable to common stock	$ (23,189)	$ 8,508	$ (27,980)	$ (2,484)
Income (loss) per share before cumulative effect of accounting change:				
Basic	$ (0.08)	$ 0.03	$ (0.11)	$ (0.01)
Diluted	$ (0.08)	$ 0.03	$ (0.11)	$ (0.01)

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Income (loss) per share:				
Basic	$ (0.08)	$ 0.03	$ (0.11)	$ (0.01)
Diluted	$ (0.08)	$ 0.03	$ (0.11)	$ (0.01)
Shares used in computation of income (loss) per share before cumulative effect of accounting change and income (loss) per share:				
Basic	285,004	261,104	266,001	259,493
Diluted	285,004	282,580	266,001	259,493

See notes to consolidated financial statements.

E*TRADE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	March 31, 2000 (Unaudited)	September 30, 1999
ASSETS		
Cash and equivalents	$ 371,136	$ 124,801
Cash and investments required to be segregated under Federal or other regulations	267,155	104,500
Brokerage receivables--net	7,016,255	2,912,581
Mortgage-backed securities	2,693,519	1,426,053
Loans receivable--net	3,049,840	2,154,509
Investments	1,353,148	830,329
Property and equipment--net	225,094	178,854
Goodwill and other intangibles	382,299	17,211
Other assets	351,440	159,386
Total assets	$15,709,886	$7,908,224
LIABILITIES AND SHAREOWNERS' EQUITY		
Liabilities:		
Brokerage payables	$ 6,744,299	$2,824,212
Banking deposits	3,292,931	2,162,682
Borrowings by bank subsidiary	2,573,599	1,267,474
Accounts payable, accrued and other liabilities	556,358	203,971
Convertible subordinated notes	650,000	--
Total liabilities	13,817,187	6,458,339
Company-obligated mandatorily redeemable preferred capital securities of subsidiary trusts holding solely junior subordinated debentures of the Company and other mandatorily redeemable preferred securities	30,615	30,584
Commitments and contigencies		
Shareowners' equity:		
Common stock, $.01 par: shares authorized, 600,000,000; shares issued and outstanding: March 31, 2000, 289,705,776; September 30, 1999, 275,145,791	2,897	2,751
Additional paid-in capital	1,629,729	1,269,167
Unearned ESOP shares	(1,834)	(2,122)
Accumulated deficit	(36,344)	(8,364)
Accumulated other comprehensive income	267,636	157,869
Total shareowners' equity	1,862,084	1,419,301

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Total liabilities and shareowners' equity	$15,709,886	$7,908,224

See notes to consolidated financial statements.

E*TRADE GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six Months Ended March 31,	
	2000	1999
Net cash provided by (used in) operating activities	$ (217,088)	$ 84,385
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of available-for-sale securities	(4,332,847)	(3,821,195)
Proceeds from sales, maturities of and principal payments on available-for-sale securities	2,746,493	3,567,902
Net increase in loans held for investment	(903,102)	(401,939)
Restricted deposits	(64,645)	--
Cash used in business acquisitions	(26,707)	--
Purchases of property and equipment, net of capital lease	(79,979)	(31,617)
Other	935	196
Net cash used in investing activities	(2,659,852)	(686,653)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in banking deposits	1,130,249	289,313
Advances from the Federal Home Loan Bank of Atlanta	2,119,000	1,220,510
Payments on advances from the Federal Home Loan Bank of Atlanta	(1,398,000)	(1,018,010)
Net increase in securities sold under agreements to repurchase	582,615	123,171
Net proceeds from convertible subordinated notes	631,312	--
Proceeds from issuance of common stock	32,516	17,387
Payments on bank loans and lines of credit	(150,589)	--
Proceeds from bank loans and lines of credit, net of transaction costs	177,535	--
Other	(1,363)	(1,648)
Net cash provided by financing activities	3,123,275	630,723
INCREASE IN CASH AND EQUIVALENTS	246,335	28,455
CASH AND EQUIVALENTS--Beginning of period	124,801	71,317
CASH AND EQUIVALENTS--End of period	$ 371,136	$ 99,772
SUPPLEMENTAL DISCLOSURES:		
Non-cash investing and financing activities:		
Unrealized gain on available-for-sale securities	$ 185,315	$ 362,133
Tax benefit on exercise of stock options	$ --	$ 30,190
Assets acquired under capital lease obligations	$ 31,698	$ --
Purchase acquisitions, net of cash acquired:		
Common stock issued and stock options assumed	$ 323,967	$ --
Cash paid, less acquired	26,707	--
Liabilities assumed	6,000	--
Carrying value of joint-venture investment	5,343	--
Fair value of assets recorded (including goodwill of		

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$357,397)	$ 362,017	$ --

See notes to consolidated financial statements.

E*TRADE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements include E*TRADE Group, Inc., a financial services holding company, and its subsidiaries (collectively, the "Company"), including E*TRADE Securities, Inc. ("E*TRADE Securities"), a securities broker-dealer, Telebanc Financial Corporation ("Telebanc"), a provider of banking and related financial services, and TIR (Holdings) Limited ("TIR"), a provider of global securities brokerage and other related services to institutional clients. The primary business of Telebanc consists of the activities conducted by Telebank (as of May 8, 2000, renamed E*TRADE bank) and Telebanc Capital Markets, Inc. ("TCM"). Telebank is a federally chartered savings bank that provides deposit accounts insured by the Federal Deposit Insurance Corporation ("FDIC") to customers nationwide. TCM is a funds manager and registered broker-dealer.

These interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and, in the opinion of management, reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America. All significant intercompany accounts and transactions have been eliminated. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A for the fiscal year ended September 30, 1999.

The consolidated financial statements of the Company have been prepared to give retroactive effect to the acquisition of Telebanc on January 12, 2000, which was accounted for as a pooling of interests (see Note 23 to the Company's Annual Report on Form 10-K/A for the fiscal year ended September 30, 1999).

NOTE 2. BROKERAGE RECEIVABLES--NET AND PAYABLES

Brokerage receivables--net and payables consist of the following (in thousands):

	March 31, 2000	September 30, 1999
Receivable from customers and non-customers (less allowance for doubtful accounts of $4,531 at March 31, 2000 and $975 at September 30, 1999)	$6,239,143	$2,559,283
Receivable from brokers, dealers and clearing organizations:		
Net settlement and deposits with clearing organizations	84,616	20,066
Deposits paid for securities borrowed	659,377	306,326
Securities failed to deliver	16,549	7,508
Other	16,570	19,398
Total brokerage receivables--net	$7,016,255	$2,912,581
Payable to customers and non-customers	$1,652,180	$ 946,760
Payable to brokers, dealers and clearing organizations:		
Deposits received for securities loaned	5,042,596	1,806,590
Securities failed to receive	19,048	7,235

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Other	30,475	63,627
Total brokerage payables	$6,744,299	$2,824,212

Receivable from and payable to brokers, dealers and clearing organizations result from the Company's brokerage activities. Receivable from customers and non-customers represents credit extended to finance their purchases of securities on margin. At March 31, 2000 and September 30, 1999, credit extended to customers and non-customers with respect to margin accounts was $6,171 million and $2,452 million, respectively. Securities owned by customers and non-customers are held as collateral for amounts due on margin balances, the value of which is not reflected on the accompanying consolidated balance sheets. Payable to customers and non-customers represents free credit balances and other customer and non-customer funds pending completion of securities transactions. The Company pays interest on certain customer and non-customer credit balances.

NOTE 3. INVESTMENTS

Investments are comprised of trading and available-for-sale debt and equity securities, as defined under the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Also included in investments are investments in entities in which the Company owns between 20% and 50% or has the ability to exercise significant influence, accounted for under the equity method.

The carrying amounts of investments are shown below (in thousands):

	March 31, 2000	September 30, 1999
Trading securities	$ 17,770	$ 38,269
Available-for-sale investment securities	1,189,221	685,555
Equity method investments:		
Venture capital funds	69,908	36,270
Other equity method investments	51,618	57,402
Other investments	24,631	12,833
Total investments	$1,353,148	$830,329

Publicly-traded Equity Securities

Included in available-for-sale securities are investments in several companies that are publicly-traded and carried at fair value. These companies include Knight/Trimark Inc., CriticalPath, Digital Island, Message Media, E-LOAN and Versus. During the six months ended March 31, 2000, the Company sold shares of Knight/Trimark generating proceeds of $41.1 million, resulting in a pre-tax gain of $41.0 million. Unrealized gains related to these investments were $498.4 million and $282.3 million at March 31, 2000 and September 30, 1999, respectively. There were no unrealized losses related to these investments at March 31, 2000 and September 30, 1999.

Venture Capital Funds

The Company made a $25 million contribution to the E*TRADE eCommerce Fund, L.P. (the "Fund") on October 1, 1999. The Fund has committed capital of approximately $100 million, $75 million of which was raised from third party investors. The Fund invests in early to mid-stage Internet companies focused on e-commerce, infrastructure tools, communication and services. The Company received a general and limited partnership interest of approximately 28% in the Fund. Through the Fund, the Company is able to leverage its own investment capital, expand the scope of its strategic investments (beyond financial services) and keep it in a position to capitalize on leading-edge technologies. The Fund is managed by its General Partner, E*TRADE Ventures I, LLC (the "General Partner"). Christos M. Cotsakos, the Chairman of the Board

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of Directors and Chief Executive Officer of the Company, and Thomas Bevilacqua, the Company's Chief Strategic Investment Officer, are the managing members of the General Partner. The Company is a non-managing member of the General Partner. The General Partner receives an annual management fee of approximately 1.75% of the total committed capital. The management fee is paid in its entirety to the Company and is used to offset the

costs and expenses of its corporate development group. In addition, to the extent that the Fund generates profits, 20% are allocated to the General Partner as a carried interest. As members of the General Partner, the Company is entitled to receive 50% of such amount provided that up to one-fifth of the Company's interest can be allocated by the managing members to Company personnel. The Company also has limited partnership interests in two other unrelated venture capital funds.

NOTE 4. SUBORDINATED NOTES AND OTHER BORROWINGS

On February 7, 2000, the Company completed a Rule 144A offering of $500 million convertible subordinated notes due February 2007. The notes are convertible, at the option of the holder, into a total of 21,186,441 shares of the Company's common stock at a conversion price of $23.60 per share. The notes bear interest at 6%, payable semiannually, and are non-callable for three years and may then be called by the Company at a premium, which declines over time. The holders have the right to require redemption at a premium in the event of a change in control or other defined redemption event. On March 17, 2000, the initial purchasers exercised an option to purchase an additional $150 million of notes, which are convertible into 6,355,932 shares of common stock. The Company used $145 million of the net proceeds to repay the outstanding balance on a line of credit in February 2000. Debt issuance costs of $19.1 million are included in other assets and are being amortized to corporate interest expense over the term of the notes. Had these securities been issued at the beginning of the fiscal year, and the proceeds used to reduce the borrowings under the line of credit, loss per share would have increased to $0.12 and $0.18 for the three and six months ended March 31, 2000, respectively, compared to $0.08 and $0.11, for the three and six months ended March 31, 1999, respectively, due to the additional interest expense and amortization of issuance costs associated with the notes.

In December 1999, the Company obtained a $150 million line of credit agreement with a syndicate of banks. The line of credit, which had an expiration date of March 31, 2000, was dissolved by the Company in February 2000 following the Company's issuance of convertible subordinated notes and repayment of the $145 million outstanding balance.

In November 1999, the Company obtained a $50 million line of credit under an agreement with a bank that expires in November 2000. The line of credit is collateralized by investment securities that are owned by the Company. Borrowings under the line of credit bear interest at 0.35% above LIBOR. The agreement requires the Company to meet certain financial covenants. As of March 31, 2000, the Company was in compliance with all such covenants. As of March 31, 2000, the Company had $32 million outstanding under this line of credit.

NOTE 5. COMPREHENSIVE INCOME

On October 1, 1998, the Company adopted SFAS No. 130, Reporting Comprehensive Income, which requires that an enterprise report, by major components and as a single total, the change in net assets during the period from non-owner sources. The reconciliation of net income (loss) to comprehensive income (loss) is as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2000	1999	2000	1999
Net income (loss)....................	$ (23,189)	$ 8,568	$(27,980)	$ (2,364)

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Changes in other comprehensive income:				
Unrealized gain (loss) on available-for-sale securities, net of tax....	(80,842)	196,934	111,953	214,937
Cumulative translation adjustments..	(1,973)	(788)	(2,186)	(396)
Total comprehensive income (loss)..........................	$(106,004)	$204,714	$ 81,787	$212,177

NOTE 6. INCOME (LOSS) PER SHARE

The following table sets forth the computation of the numerator and denominator used in the computation of basic and diluted income (loss) per share (in thousands):

	Three Months Ended March 31,			Six Months Ended March 31,	
	2000	1999		2000	1999
	Basic and diluted loss per share	Basic income per share	Diluted income per share	Basic and diluted loss per share	Basic and diluted loss per share
Numerator:					
Income (loss) before cumulative effect of accounting change......	$(23,189)	$ 9,037	$ 9,037	$(27,980)	$ (1,895)
Cumulative effect of accounting change, net of tax.................	--	(469)	(469)	--	(469)
Net income (loss).......	(23,189)	8,568	8,568	(27,980)	(2,364)
Less preferred dividends..............	--	60	60	--	120
Income (loss) applicable to common stock........	$(23,189)	$ 8,508	$ 8,508	$(27,980)	$ (2,484)
Denominator:					
Weighted average shares outstanding............	285,004	261,104	261,104	266,001	259,493
Dilutive effect of options issued to associates............	--	--	19,947	--	--
Dilutive effect of warrants outstanding...	--	--	1,529	--	--
	285,004	261,104	282,580	266,001	259,493

Because the Company reported a net loss in the three and six months ended March 31, 2000 and in the six months ended March 31, 1999, the calculation of diluted earnings per share does not include common stock equivalents as they are anti-dilutive and would result in a reduction of loss per share. If the Company had reported net income in the three and six months ended March 31, 2000 and in the six months ended March 31, 1999, there would have been 17,847,000, 18,838,000, and 19,091,000 additional shares for options outstanding, respectively, 889,000, 897,000, and 1,518,000 additional shares for warrants outstanding, respectively, and 13,317,000, 6,622,000, and no additional shares for shares issuable under convertible subordinated notes (see Note 4), respectively, in the calculation of diluted earnings per share.

The following options to purchase shares of common stock would not be included in the computation of diluted income (loss) per share because the options' exercise price was greater than the average market price of the Company's common stock for the periods stated, and therefore, the effect would be antidilutive (in thousands, except exercise price data):

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	Three Months Ended March 31,		Six Months Ended March 31,	
	2000	1999	2000	1999
Options excluded from computation of diluted income (loss) per share	5,086	154	2,810	490
Exercise price ranges:				
High	$58.75	$39.74	$58.75	$39.74
Low	$25.34	$23.81	$27.13	$15.57

NOTE 7. COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED CAPITAL SECURITIES

In June 1997, Telebanc formed Telebanc Capital Trust I ("TCT I"), which in turn sold, at par, 10,000 shares of trust preferred securities, Series A, liquidation amount of $1,000, for a total of $10.0 million. TCT I is a business trust formed for the purpose of issuing capital securities and investing the proceeds in junior subordinated debentures issued by Telebanc. These junior subordinated debentures, which are the sole assets of TCT I, have a principal amount of $10.0 million and bear interest at an annual rate of 11.0%. The junior subordinated debentures mature in 2027.

In July 1998, Telebanc formed Telebanc Capital Trust II ("TCT II"), a business trust formed solely for the purpose of issuing capital securities. TCT II sold, at par, 1,100,000 shares of Beneficial Unsecured Securities, Series A, with a liquidation amount of $25 per share, for a total of $27.5 million and invested the net proceeds in Telebanc's 9.0% Junior Subordinated Deferrable Interest Debentures, Series A. These Junior Subordinated Deferrable Interest Debentures, Series A, which are the sole assets of TCT II, have a principal amount of $27.5 million and mature in 2028.

All of the capital securities of TCT I and TCT II (together the "Trusts") are owned by Telebanc. The guarantees for the Trusts, together with obligations under the trust agreements as assumed in the Company's acquisition of Telebanc, and the indenture and junior subordinated debentures, constitute a full, irrevocable and unconditional guarantee by the Company of the capital securities issued by TCT I and TCT II.

NOTE 8. REGULATORY REQUIREMENTS

E*TRADE Securities is subject to the Uniform Net Capital Rule (the "Rule") under the Securities Exchange Act of 1934 administered by the Securities and Exchange Commission ("SEC") and the National Association of Securities Dealers, Inc. ("NASD"), which requires the maintenance of minimum net capital. E*TRADE Securities has elected to use the alternative method permitted by the Rule, which requires that the Company maintain minimum net capital equal to the greater of $250,000 or two percent of aggregate debit balances arising from customer transactions, as defined. E*TRADE Securities had amounts in relation to the Rule as follows (in thousands, except percentage data):

	March 31, 2000	September 30, 1999
Net capital	$479,326	$162,729
Percentage of aggregate debit balances	7.5%	6.2%
Required net capital	$128,404	$ 52,206
Excess net capital	$350,922	$110,523

Under the alternative method, a broker-dealer may not repay subordinated borrowings, pay cash dividends or make any unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar amount

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requirement.

TIR's brokerage subsidiary companies are also subject to net capital requirements. These companies are located in the United States, Australia, Hong Kong, Ireland, the Philippines and the United Kingdom. The companies outside the United States have various and differing capital requirements, all of which were met at March 31, 2000 and September 30, 1999. The net capital requirements of TIR's brokerage subsidiary companies located in the United States are summarized as follows:

TIR Securities, Inc.--TIR Securities, Inc. is subject to the Rule and is required to maintain net capital equal to the greater of $250,000 or 6.67% of aggregate indebtedness as defined. The Rule also requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. TIR Securities, Inc. is also subject to the Commodity Futures Trading Commission ("CFTC") Regulation 1.17, which requires the maintenance of net capital of 4% of the funds required to be segregated in accordance with Section 4d(2) of the Commodities Exchange Act or $30,000, whichever is greater. TIR Securities, Inc. is required to maintain net capital in accordance with the Rule or CFTC Regulation 1.17, whichever is greater.

TIR Investor Select, Inc.--TIR Investor Select, Inc. is subject to the Rule and is required to maintain net capital equal to the greater of $5,000 or 6.67% of aggregate indebtedness, as defined. The Rule also requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1.

Marquette Securities, Inc.--Marquette Securities, Inc. is subject to the Rule and is required to maintain net capital equal to the greater of $250,000 or 6.67% of aggregate indebtedness, as defined. The Rule also requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1.

Telebanc Capital Markets, Inc.--Telebanc's registered broker-dealer subsidiary, TCM, is also subject to the Rule and is required to maintain net capital equal to the greater of $100,000 or 6.67% of aggregate indebtedness, as defined. The Rule also requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1.

The table below summarizes the minimum and excess capital requirements for the above companies (in thousands):

	March 31, 2000			September 30, 1999		
	Required net capital	Net capital	Excess net capital	Required net capital	Net capital	Excess net capital
TIR Securities, Inc.	$250	$ 2,522	$ 2,272	$ 82	$ 2,289	$ 2,207
TIR Investor Select, Inc.	$ 5	$ 367	$ 362	$ 5	$ 254	$ 249
Marquette Securities, Inc.	$250	$ 475	$ 225	$250	$ 445	$ 195
Telebanc Capital Markets, Inc.	$213	$18,710	$18,497	$190	$17,310	$17,120

Telebank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory--and possibly additional discretionary--actions by regulators that, if undertaken, could have a direct material effect on Telebank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Telebank must meet specific capital guidelines that involve quantitative measures of Telebank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Telebank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy

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require Telebank to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of March 31, 2000, that Telebank meets all capital adequacy requirements to which it is subject. As of March 31, 2000 and September 30, 1999, the Office of Thrift Supervision ("OTS")

categorized Telebank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Telebank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institution's category.

Telebank's required and actual capital amounts and ratios are presented in the table below (dollars in thousands):

	Actual		Required For Capital Adequacy Purposes		Required To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2000:						
Core Capital (to adjusted tangible assets)..........	$471,179	7.32%	>$257,762	> 4.0%	$322,202	> 5.0%
Tangible Capital (to tangible assets)..........	$471,179	7.32%	>$ 96,502	> 1.5%	N/A	N/A
Tier I Capital (to risk weighted assets)..........	$471,179	18.36%	N/A	N/A	$153,825	> 6.0%
Total Capital (to risk weighted assets)..........	$479,516	18.04%	>$434,565	> 8.0%	$256,376	>10.0%
As of September 30, 1999:						
Core Capital (to adjusted tangible assets)..........	$440,469	11.20%	>$157,320	> 4.0%	>$196,651	> 5.0%
Tangible Capital (to tangible assets)..........	$440,469	11.20%	>$ 58,995	> 1.5%	N/A	N/A
Tier I Capital (to risk weighted assets)..........	$440,469	25.97%	N/A	N/A	>$101,768	> 6.0%
Total Capital (to risk weighted assets)..........	$447,170	26.36%	>$135,691	> 8.0%	>$169,614	>10.0%

Telebank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. At March 31, 2000, approximately $118.0 million of Telebank's retained earnings was available for dividend declaration without regulatory approval.

NOTE 9. COMMITMENTS, CONTINGENCIES AND OTHER REGULATORY MATTERS

As of March 31, 2000, the Company had commitments to purchase $313.1 million in fixed rate and $440.2 million in variable rate loans, and certificates of deposit scheduled to mature in less than one year approximating $1,317 million. In the normal course of business, the Company makes various commitments to extend credit and incur contingent liabilities that are not reflected in the balance sheets.

The Company is a defendant in civil actions arising in the normal course of business, including several putative class action filings. The matters alleged by the plaintiffs include:

- False and deceptive advertising and other communications regarding the Company's commission rates and ability to timely execute and confirm online transactions;

- Damages arising from alleged problems in accessing brokerage accounts

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and placing orders;

- Damages arising from system interruptions, including those occurring on February 3, 4 and 5, 1999; and

- Unfair business practices regarding the extent to which initial public offering shares are made available to the Company's customers.

These proceedings are at early stages, and the Company is unable to predict their ultimate outcome; however, the Company believes that all of these claims are without merit and intends to defend against them vigorously. An unfavorable outcome in any of these matters, if they are not covered by insurance, could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, even if the ultimate outcomes are resolved in favor of the Company, the defense of such litigation could entail considerable cost and the diversion of efforts of management, either of which could have a material adverse effect on the Company's results of operation.

From time to time, the Company has been threatened with, or named as a defendant in, lawsuits, arbitrations and administrative claims. Compliance and trading problems that are reported to the NASD or the SEC by dissatisfied customers are investigated by the NASD or the SEC, and, if pursued by such customers, may rise to the level of arbitration or disciplinary action. One or more of such claims or disciplinary actions decided adversely against the Company could have a material adverse effect on the Company's business, financial condition and results of operations. The Company is also subject to periodic regulatory audits and inspections.

The securities and banking industries are subject to extensive regulation under federal, state and applicable international laws. As a result, the Company is required to comply with many complex laws and rules and its ability to so comply is dependent in large part upon the establishment and maintenance of a qualified compliance system. The Company is aware of several instances of its noncompliance with applicable regulations.

NOTE 10. ACQUISITIONS

On March 13, 2000, the Company entered into a definitive agreement to acquire Card Capture Services, Inc. ("CCS"), the largest independent network of centrally-managed automated teller machines in the United States. On May 8, 2000, the Company completed the acquisition of CCS. With the acquisition of CCS, the Company will be able to provide customers with a nationwide, branded electronic physical presence to conduct financial transactions. The acquisition will be accounted for as a purchase. Under the terms of the agreement, the Company will issue 3,211,124 shares of the Company's common stock, with a value of approximately $82.4 million.

On January 12, 2000, the Company completed the acquisition of Telebanc. Telebanc is the holding company for Telebank, an Internet-based bank (renamed E*TRADE bank as of May 8, 2000). Under the terms of the agreement, Telebanc shareowners received 1.05 shares of E*TRADE common stock for each share of Telebanc common stock representing a total of 35.6 million shares of the Company's common stock. The Company also assumed all outstanding Telebanc options, which were converted to options to purchase approximately 5,494,000 shares of the Company's common stock. The acquisition was accounted for as a pooling of interests and, accordingly, all prior financial data of the Company has been restated to include the historical operations of Telebanc. There were no significant intercompany transactions requiring elimination for any prior periods presented. The Company has incurred $24.2 million and $26.9 million merger-related costs in the three and six months ended March 31, 2000, respectively, related to the acquisition of Telebanc. The information below reflects the operations of E*TRADE and Telebanc on a standalone and consolidated basis (in thousands):

	Net	Net Income (Loss) Before Cumulative Effect of	Net

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	Revenues	Accounting Change	Income (Loss)
Three months ended March 31, 2000:			
E*TRADE Group...........	$378,698	$(11,855)	$(11,855)
Telebanc................	28,732	(11,334)	(11,334)
Combined................	$407,430	$(23,189)	$(23,189)
Three months ended March 31, 1999:			
E*TRADE Group...........	$149,402	$ 7,320	$ 7,320
Telebanc................	12,373	1,717	1,248
Combined................	$161,775	$ 9,037	$ 8,568
Six months ended March 31, 2000:			
E*TRADE Group...........	$622,917	$(17,069)	$(17,069)
Telebanc................	52,155	(10,911)	(10,911)
Combined................	$675,072	$(27,980)	$(27,980)
Six months ended March 31, 1999:			
E*TRADE Group...........	$259,913	$ (4,267)	$ (4,267)
Telebanc................	21,279	2,372	1,903
Combined................	$281,192	$ (1,895)	$ (2,364)

During the quarter ended December 31, 1999, the Company acquired 100% ownership of three of its foreign affiliates, E*TRADE Nordic AB, a Swedish company, E*TRADE @ Net Bourse S.A., a French company, and the remaining portion of its E*TRADE UK joint venture, for an aggregate purchase price of $362 million. The purchase price was comprised of 11.7 million shares of the Company's common stock, cash of $26.7 million and the assumption of options of the affiliates. The purchase price exceeded the fair value of the assets acquired by $357 million, which was recorded as goodwill to be amortized over 20 years. Merger-related costs related to foreign acquisitions were not significant.

The pro forma information below assumes that the acquisitions occurred at the beginning of fiscal 1999 and includes the effect of amortization of goodwill from that date (in thousands, except per share amounts):

	Six Months Ended March 31,	
	2000	1999
Net revenues..	$691,152	$297,387
Net loss..	$(36,831)	$(13,462)
Basic and diluted loss per share....................	$ (0.14)	$ (0.05)

The pro forma information is for informational purposes only and is not necessarily indicative of the results of future operations nor results that would have been achieved had the acquisitions taken place at the beginning of fiscal 1999.

NOTE 11. SEGMENT INFORMATION

The Company provides securities brokerage and related investment and financial services. Following the acquisitions of TIR in fiscal 1999 and Telebanc in fiscal 2000 (see Note 10), the Company classified the operations of E*TRADE's historical business, TIR and Telebanc as separate reportable

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segments due to the relatively short operating history of the combined operations of E*TRADE's historical business with TIR and Telebanc and due to Telebanc's online banking services which represent a new line of business. With the acquisition of three foreign affiliates in the quarter ended December 31, 1999, their results have been combined with TIR to constitute the International segment. This is the manner in which management currently evaluates the Company's operating performance. Financial information for the Company's reportable segments is presented in the table below, and the totals are equal to the Company's consolidated amounts as reported in the consolidated financial statements.

	E*TRADE Group	International	Telebanc	Total
	(in thousands)			
Three months ended March 31, 2000:				
Interest income--net of interest expense.........................	$ 66,386	$ 377	$29,303	$ 96,066
Non-interest revenue--net of provision for loan losses........	269,550	42,385	(571)	311,364
Net revenues.....................	$335,936	$42,762	$28,732	$407,430
Operating income (loss)..........	$(16,123)	$ 1,959	$(8,474)	$(22,638)
Pre-tax income (loss)............	$(24,554)	$ 1,359	$(8,509)	$(31,704)
Three months ended March 31, 1999:				
Interest income--net of interest expense.........................	$ 22,550	$ 164	$ 9,330	$ 32,044
Non-interest revenue--net of provision for loan losses........	98,408	28,280	3,043	129,731
Net revenues.....................	$120,958	$28,444	$12,373	$161,775
Operating income (loss)..........	$(28,970)	$ 2,126	$ 3,373	$(23,471)
Pre-tax income...................	$ 9,056	$ 2,033	$ 3,561	$ 14,650

	E*TRADE Group	International	Telebanc	Total
	(in thousands)			
Six months ended March 31, 2000:				
Interest income--net of interest expense.........	$ 107,784	$ 531	$ 50,636	$ 158,951
Non-interest revenue--net of provision for loan losses.............	438,808	75,794	1,519	516,121
Net revenues.............	$ 546,592	$ 76,325	$ 52,155	$ 675,072
Operating income (loss)...	$ (80,364)	$ 4,183	$ (6,272)	$ (82,453)
Pre-tax income (loss).....	$ (33,985)	$ 3,548	$ (6,260)	$ (36,697)
Six months ended March 31, 1999:				
Interest income--net of interest expense.........	$ 38,717	$ 397	$ 15,951	$ 55,065
Non-interest revenue--net of provision for loan losses.............	165,073	55,726	5,328	226,127
Net revenues.............	$ 203,790	$ 56,123	$ 21,279	$ 281,192
Operating income (loss)...	$ (57,394)	$ 4,376	$ 5,326	$ (47,692)

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Pre-tax income (loss).....	$ (14,062)	$ 4,349	$ 5,521	$ (4,192)

	E*TRADE Group	International	Telebanc	Total
	(in thousands)			
As of March 31, 2000:				
Segment assets...........	$9,157,096	$128,039	$6,424,751	$15,709,886
As of September 30, 1999:				
Segment assets...........	$3,771,370	$155,610	$3,981,244	$ 7,908,224

No one single customer accounted for greater than 10% of total revenues in the three or six months ended March 31, 2000 or 1999.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Form 10-Q. This discussion contains forward-looking statements, including statements regarding the Company's strategy, financial performance and revenue sources, which involve risks and uncertainties. The Company's actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in the section entitled "Risk Factors" and elsewhere in this Form 10-Q.

Results of Operations

Revenue Detail (in millions, except percentage data)

The following table sets forth the components of revenue and the percentage change for the three and six months ended March 31, 2000 and 1999:

	Three Months Ended March 31,			Six Months Ended March 31,		
	2000	1999	Percentage Change	2000	1999	Percent Change
Transaction revenues:						
Commissions..................	$225.8	$ 80.6	180%	$362.5	$133.0	173%
Order flow...................	28.8	9.9	191%	44.4	17.8	149%
Total transaction revenues...	254.6	90.5	181%	406.9	150.8	170%
Interest income:						
Brokerage-related activities...	132.3	38.8	241%	207.5	64.7	221%
Banking-related activities.....	110.4	41.7	165%	192.4	76.9	150%
Total interest income........	242.7	80.5	201%	399.9	141.6	182%
Global and institutional.........	41.4	29.3	41%	75.1	57.4	31%
Other...........................	16.6	10.4	60%	35.9	18.7	92%
Gross revenues..............	555.3	210.7	164%	917.8	368.5	149%
Interest expense:						
Brokerage-related activities...	65.6	16.1	307%	99.2	25.6	288%
Banking-related activities.....	81.0	32.3	151%	141.7	60.9	133%
Total interest expense.......	146.6	48.4	203%	240.9	86.5	178%

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Provision for loan losses........	1.3	0.5	160%	1.8	0.8	125%
Net revenues................	$407.4	$161.8	152%	$675.1	$281.2	140%

Revenues

The Company's net revenues increased to $407.4 million in the second quarter of fiscal 2000, up 152% from $161.8 million in the equivalent period of fiscal 1999. The Company's revenues increased to $675.1 million for the six months ended March 31, 2000, up 140% from $281.2 million in the equivalent period of fiscal 1999. Revenues increased mainly due to higher customer trading volume, an increase in net new active accounts, and an increase in customer assets.

Transaction Revenues

Transaction revenues increased to $254.6 million in the second quarter of fiscal 2000, up 181% from $90.5 million in the equivalent period in fiscal 1999. Transaction revenues increased to $406.9 million for the

six months ended March 31, 2000, up 170% from $150.8 million for the equivalent period in fiscal 1999. Transaction revenues consist of commission revenues and payments for order flow. Growth in transaction revenues reflect the overall high level of trading volume in U.S. financial markets, as well as the increase in new customer accounts.

Commission revenues for the second quarter of fiscal 2000 increased to $225.8 million, up 180% from $80.6 million for the same period a year ago. Commission revenues for the six months ended March 31, 2000 increased to $362.5 million, up 173% from $133.0 million for the same period a year ago. Brokerage transactions for the second quarter of fiscal 2000 totaled 14.2 million, or an average of 226,100 transactions per day. This is an increase of 220% over the average daily brokerage transaction volume of 70,200 in the prior year. Brokerage transactions for the six months ended March 31, 2000 totaled 22.7 million, or an average of 178,800 transactions per day. This is an increase of 161% over the average daily brokerage transaction volume of 113,200 in the prior period. Commissions per trade decreased from $18.83 and $18.90 in the three and six months ended March 31, 1999, respectively, to $15.85 and $15.96 for the three and six months ended March 31, 2000, respectively. The decline in commissions per trade was a result of promotional activities, changes in the mix of revenue generating transactions and the August 1999 implementation of the new Power E*TRADE program, a component of which provides reduced commissions for active traders.

Payments for order flow increased to $28.8 million for the second quarter of fiscal 2000, up 191% from $9.9 million for the same period a year ago. Order flow revenue increased to $44.4 million for the six months ended March 31, 2000, up 149% from $17.8 million for the same period in the prior year. As a percentage of transaction revenue, payments for order flow were 11% for the three months ended March 31, 2000 and 1999. As a percentage of transaction revenues, payments for order flow decreased to 11% in the six months ended March 31, 2000 from 12% in the comparable period in fiscal 1999. Payments for order flow did not increase at the same rate as transactions due to changes in the order flow mix, a decrease in the average shares per equity transaction, and the continued impact of the SEC's order handling rules.

Interest Income and Expense

Interest income from brokerage-related activities is comprised of interest earned by the Company on credit extended to its customers to finance their purchases of securities on margin and fees on its customer assets invested in money market accounts. Interest expense from brokerage-related activities is comprised of interest paid to customers on certain credit balances, interest paid to banks and interest paid to other broker-dealers through the Company's stock loan program. Interest income from banking-related activities reflects interest earned on assets, consisting primarily of loans receivable and mortgage-backed securities. Interest expense from banking-related activities is comprised of interest-bearing liabilities which include customer deposits, advances from the Federal Home Loan Bank of Atlanta and other borrowings.

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Brokerage interest income increased to $132.3 million in the second quarter of fiscal 2000, up 241% from $38.8 million for the same period a year ago. Brokerage interest income increased to $207.5 million for the six months ended March 31, 2000, up 221% from $64.7 million for the same period in fiscal 1999. These increases primarily reflect the overall increase in average customer margin balances, which increased 195% to $4,877 million in the second quarter of fiscal 2000, from $1,655 million in the same period a year ago, and average customer money market fund balances, which increased 131% to $6,698 million in the second quarter of fiscal 2000, from $2,904 million in the same period a year ago. Brokerage interest expense increased to $65.6 million in the second quarter of fiscal 2000, up 307% from $16.1 million in the comparable prior year period. Brokerage interest expense increased to $99.2 million for the six months ended March 31, 2000, up 288% from $25.6 million in the comparable prior year period. This increase is due to an overall increase in average customer credit balances, which increased 259% to $1,530 million in the second quarter of fiscal 2000, from $425.7 million in the same period a year ago, and average stock loan balances, which increased 376% to $4,385 million in the second quarter of fiscal 2000, from $921.4 million in the same period a year ago.

Banking interest income increased to $110.4 million in the second quarter of fiscal 2000, up 165% from $41.7 million for the same period a year ago. Banking interest income increased to $192.4 million in the

six months ended March 31, 2000, up 150% from $76.9 million for the same period a year ago. These increases reflect an increase in the average interest-earning asset balances coupled with an increase in the average interest yield. Average interest-earning assets increased 137% to $5,694 million during the second quarter of fiscal 2000, from $2,406 million in the same period a year ago. The average yield increased to 7.76% in the second quarter of fiscal 2000 from 6.93% in the same period a year ago. Average interest-earning assets increased 134% to $5,109 million during the six months ended March 31, 2000, from $2,186 million in the same period a year ago. The average yield increased to 7.53% in the six months ended March 31, 2000 from 7.02% in the same period a year ago. Interest expense from banking activities increased to $81.0 million in the first quarter of fiscal 2000, up 151% from $32.3 million for the same period a year ago. Interest expense from banking activities increased to $141.7 million in the six months ended March 31, 2000, up 133% from $60.9 million for the same period a year ago. These increases reflect an increase in the average interest-bearing liabilities coupled with an increase in the average cost of the borrowings. Average interest-bearing liabilities increased 129% to $5,316 million during the second quarter of fiscal 2000, from $2,321 million in the same period a year ago. The average cost increased to 6.13% in the second quarter of fiscal 2000 from 5.66% in the same period a year ago. Average interest-bearing liabilities increased 125% to $4,717 million during the six months ended March 31, 2000, from $2,101 million in the same period a year ago. The average cost increased to 6.01% in the six months ended March 31, 2000 from 5.76% in the same period a year ago.

The following tables present average balance data and income and expense data for the Company's banking operations and the related interest yields and rates for the three and six months ended March 31, 2000 and 1999. The tables also present information for the periods indicated with respect to net interest margin, an indicator of an institution's profitability, which is calculated by dividing net interest income by interest-earning banking assets. Another indicator of profitability is net interest spread, which is the difference between the weighted average yield earned on interest-earning assets and weighted average rate paid on interest-bearing liabilities. Interest includes the incremental tax benefit of tax exempt income.

Three Months Ended March 31, 2000			Three Months Ended March 31, 1999		
Average Balance	Interest Income/ Expense	Average Annualized Yield/Cost	Average Balance	Interest Income/ Expense	Average Annualized Yield/Cost

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(In thousands)
(unaudited)

Interest-earning banking assets:						
Loans receivable, net..................	$2,777,617	$ 56,119	8.08%	$ 1,005,016	$ 19,111	7.61%
Interest-bearing deposits.............	104,930	1,450	5.56	21,824	223	4.14
Mortgage-backed and related available-for-sale securities..	2,539,374	48,005	7.56	1,122,206	18,305	6.52
Available-for-sale investment securities...........	194,270	3,356	7.13	220,985	3,391	6.34
Investment in FHLB stock................	53,427	1,029	7.75	24,622	455	7.50
Trading securities....	24,100	382	6.34	11,118	207	7.45
Total interest-earning banking assets..............	5,693,718	$110,341	7.76%	2,405,771	$ 41,692	6.93%
Non-interest-earning banking assets.........	233,858			88,343		
Total banking assets..............	$5,927,576			$ 2,494,114		
Interest-bearing banking liabilities:						
Retail deposits.......	$2,910,177	$ 43,176	5.94%	$ 1,223,657	$ 17,158	5.69%
Brokered callable certificates of deposit..............	91,836	1,483	6.48	67,078	1,098	6.64
FHLB advances.........	1,056,637	16,317	6.11	437,033	5,745	5.26
Other borrowings......	1,257,613	20,061	6.31	563,052	7,477	5.31
Subordinated debt, net..................	--	--	--	29,877	884	11.83
Total interest-bearing banking liabilities.........	5,316,263	$ 81,037	6.13%	2,320,697	$ 32,362	5.66%
Non-interest-bearing banking liabilities....	112,924			59,029		
Total banking liabilities.........	5,429,187			2,379,726		
Total banking shareowners' equity..............	498,389			114,388		
Total banking liabilities and shareowners' equity....	$5,927,576			$ 2,494,114		
Excess of interest-earning banking assets over interest-bearing banking liabilities/net interest income........	$ 377,455	$ 29,304		$ 85,074	$ 9,330	
Net interest spread.....			1.63%			1.27%
Net interest margin (net yield on interest-earning banking assets)................			2.07%			1.55%
Ratio of interest-earning banking assets to interest-bearing banking liabilities....			107.10%			103.67%
Return on average total banking assets.........			0.26%*			0.20%
Return on average net banking assets.........			3.15%*			4.30%
Equity to total banking assets.................			8.41%			4.59%

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* Ratios calculated by excluding ESOP and merger related costs of $13.8 million.

	Six Months Ended March 31, 2000			Six Months Ended March 31, 1999		
	Average Balance	Interest Income/ Expense	Average Annualized Yield/Cost	Average Balance	Interest Income/ Expense	Average Annualized Yield/Cost
	(In thousands) (unaudited)					
Interest-earning banking assets:						
Loans receivable, net	$2,558,598	$ 99,818	7.80%	$ 929,752	$35,826	7.71%
Interest-bearing deposits	74,494	2,031	5.45	17,538	418	4.77
Mortgage-backed and related available-for-sale securities	2,214,835	81,374	7.35	989,124	32,531	6.58
Available-for-sale investment securities	191,131	6,518	6.82	221,402	6,878	6.21
Investment in FHLB stock	45,689	1,769	7.74	20,701	773	7.47
Trading securities	23,994	849	7.08	7,269	274	7.54
Total interest-earning banking assets	5,108,741	$192,359	7.53%	2,185,786	$76,700	7.02%
Non-interest-earning banking assets	200,585			89,889		
Total banking assets	$5,309,326			$2,275,675		
Interest-bearing banking liabilities:						
Retail deposits	$2,607,313	$ 76,554	5.87%	$1,143,885	$32,991	5.75%
Brokered callable certificates of deposit	85,505	2,788	6.52	67,058	2,220	6.62
FHLB advances	898,858	27,220	6.06	377,536	10,191	5.40
Other borrowings	1,125,463	35,161	6.25	482,851	13,307	5.51
Subordinated debt, net	--	--	--	29,846	1,769	11.85
Total interest-bearing banking liabilities	4,717,139	$141,723	6.01%	2,101,176	$60,478	5.76%
Non-interest-bearing banking liabilities	89,802			58,354		
Total banking liabilities	4,806,941			2,159,530		
Total banking shareowners' equity	502,385			116,144		
Total banking liabilities and shareowners' equity	$5,309,326			$2,275,674		
Excess of interest-earning banking assets over interest-bearing banking liabilities/net interest income	$ 391,602	$ 50,636		$ 84,610	$16,222	

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Net interest spread.....	1.52%	1.28%
Net interest margin (net yield on interest-earning banking assets)................	1.98%	1.48%
Ratio of interest-earning banking assets to interest-bearing banking liabilities....	108.30%	104.03%
Return on average total banking assets.........	0.13%*	0.25%
Return on average net banking assets.........	1.72%*	4.21%
Equity to total banking assets................	9.46%*	5.10%

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* Ratios calculated by excluding ESOP and merger related costs of $17.6 million.

Global and Institutional

Global and institutional revenues increased to $41.4 million for the second quarter of fiscal 2000, up 41% from $29.3 million for the same period a year ago. For the six months ended March 31, 2000, global and institutional revenues increased to $75.1 million from $57.4 million, up 31% from the same period in fiscal 1999. Global and institutional revenues are comprised of revenues from TIR's operations, as well as licensing fees, royalties and brokerage-related transaction revenue from E*TRADE International's affiliates. TIR's net revenues increased to $38.9 million in the second quarter of fiscal 2000, up 37% from $28.4 million for the same period a year ago. These increases are primarily attributable to strong market conditions in Asia and Europe. TIR revenues are largely comprised of commissions from institutional trade executions; for the second quarter of fiscal 2000, approximately 56% of TIR's transactions were from outside the U.S., and approximately 87% were cross-border transactions.

Other Revenues

Other revenues increased to $16.6 million in the second quarter of fiscal 2000, up 60% from $10.4 million for the comparable period in fiscal 1999. Other revenues increased to $35.9 million for the six months ended March 31, 2000, up 92% from $18.7 million for the comparable period in fiscal 1999. Other revenues increased primarily due to growth in mutual funds revenue, revenues from fees charged for advertising on the Company's Web site, investment banking revenue, E*TRADE Business Solutions revenue, and brokerage and banking-related fees for services.

Provision for Loan Losses

The provision for loan losses increased to $1.3 million in the second quarter of fiscal 2000, up 160% from $0.5 million for the comparable period in fiscal 1999. For the six months ended March 31, 2000, the provision for loan losses increased to $1.8 million from $0.8 million, up 125% from the same period in fiscal 1999. The provision for loan losses recorded reflects increases to the Company's allowance for loan losses based upon management's review and assessment of the risk in the Company's loan portfolio, as well as the level of charge-offs to the Company's allowance for loan losses. The increase in the provision for loan losses in the second quarter of fiscal 2000 primarily reflects the growth in the Company's loan portfolio. As of March 31, 2000, the total loan loss allowance was $8.8 million, or 0.29% of total loans outstanding. The total loan loss allowance as of September 30, 1999 was $7.1 million, or 0.33% of total loans outstanding. As of March 31, 2000, the general loan loss allowance was $8.3 million, or 43.9% of total non-performing assets of $19.0 million. As of September 30, 1999, the general loan loss allowance was $6.7 million, or 78.8% of total non-performing assets of $8.5 million.

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Cost of Services

Total cost of services increased to $130.5 million for the second quarter of fiscal 2000, up 96% from $66.5 million in the comparable period in fiscal 1999. Total cost of services increased to $242.0 million for the six months ended March 31, 2000, up 107% from $116.7 million in the comparable period in fiscal 1999. Cost of services includes expenses related to the Company's clearing operations, customer service activities, Web site content costs, system maintenance, communication expenses and depreciation. These increases reflect the overall increase in customer transactions processed by the Company, a related increase in customer service inquiries, and operations and maintenance costs associated with the Company's technology centers in Rancho Cordova, California and Alpharetta, Georgia. Cost of services as a percentage of net revenues was 32% in the second quarter of fiscal 2000 and 41% in the comparable period in fiscal 1999. Cost of services as a percentage of net revenues was 36% for the six months ended March 31, 2000, compared to 42% in the comparable period in fiscal 1999. The improvement in cost of services as a percentage of net revenue is reflective of increased trading volumes and the diversification of revenue streams.

Operating Expenses

Selling and marketing expenses increased to $177.5 million in the second quarter of fiscal 2000, up 127% from $78.2 million in the comparable period in fiscal 1999. Selling and marketing expenses increased to $307.2 million for the six months ended March 31, 2000, up 126% from $135.9 million in the comparable period

in fiscal 1999. The increases reflect expenditures for advertising placements, creative development and collateral materials resulting from a variety of advertising campaigns directed at building brand name recognition, growing the customer base and market share, and maintaining customer retention rates. Selling and marketing expenditures in the three and six months ended March 31, 2000 reflect expenditures which resulted from the Company's Sponsorship of Super Bowl XXXIV. International marketing expenditures are expected to increase as the Company expands its advertising efforts abroad; however, overall marketing expenditure levels are not expected to continue to grow at the same rate throughout fiscal 2000.

Technology development expenses increased to $42.1 million in the second quarter of fiscal 2000, up 175% from $15.3 million in the comparable period in fiscal 1999. Technology development expenses increased to $78.5 million for the six months ended March 31, 2000, up 163% from $29.8 million in the comparable period in fiscal 1999. The increased level of expense was incurred to enhance the Company's existing product offerings, including maintenance of the Company's Web site, and reflects the Company's continuing commitment to invest in new products and technologies

General and administrative expenses increased to $50.2 million in the second quarter of fiscal 2000, up 103% from $24.7 million in the comparable period in fiscal 1999. General and administrative expenses increased to $92.3 million for the six months ended March 31, 2000, up 105% from $45.1 million in the comparable period in fiscal 1999. These increases were the result of personnel additions and the development of administrative functions resulting from the overall growth in the Company.

Amortization of goodwill and other intangibles was $5.2 million in the second quarter of fiscal 2000 up 754% from $0.6 million in the comparable period in fiscal 1999. Amortization of goodwill and other intangibles increased to $7.2 million for the six months ended March 31, 2000, up 414% from $1.4 million in the comparable period in fiscal 1999. These increases primarily consist of amortization of goodwill related to the acquisition of three of the Company's foreign affiliates. Goodwill is amortized over 15 to 20 years.

Merger-related expenses of $24.6 million were recognized in the second quarter of fiscal 2000, compared to $5.8 million of merger-related expenses recognized in the first quarter of fiscal 2000. Merger-related expenses primarily relate to transaction costs associated with the Telebanc acquisition. Additional costs associated with the Company's mergers and acquisitions are expected to be incurred throughout fiscal 2000. No merger-related expenses were incurred during the three or six months ended March 31,

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1999.

Non-operating Income (Expense)

Corporate interest expense-net was $3.9 million for the quarter ended March 31, 2000, compared with $5.9 million in corporate interest income-net in the comparable period in fiscal 1999. Corporate interest expense-net was $2.1 million for the six month period ended March 31, 2000, compared with $11.3 million in corporate interest income-net in the comparable period in fiscal 1999. Corporate interest expense-net increased primarily as a result of a decrease in average corporate investment balances coupled with interest arising from the issuance of $650 million in convertible notes during the three months ended March 31, 2000.

In the second quarter of fiscal 2000, the Company continued to liquidate portions of its investment portfolio and recognized realized gains of $10.9 million, compared with $33.4 million in recognized realized gains in the first quarter of fiscal 2000. The gain on sale of investments for the six month period ended March 31, 2000 was $42.2 million, compared with $33.4 million in recognized realized gains for the equivalent period in fiscal 1999.

The Company recorded an unrealized loss of $14.6 million during the second quarter of fiscal 2000 on its participation in the E*TRADE eCommerce Fund L.P., representing market declines on public investments held by the fund. The Company recorded an unrealized gain of $10.8 million in the six months ended March 31, 2000. This fund was formed in the first quarter of fiscal 2000.

Equity in losses of investments included in other non-operating income (expense) was $0.7 million in the second quarter of fiscal 2000, which resulted from the Company's minority ownership in its investments which are accounted for under the equity method, compared to $1.1 million in the comparable period in fiscal 1999. Equity in losses of investments was $4.6 million for the six month period ended March 31, 2000, compared to

$1.1 million in the equivalent period in fiscal 1999. These investments include E*TRADE Japan, E*OFFERING and Archipelago. The Company expects that these companies will continue to invest in the development of their products and services, and will incur operating losses throughout fiscal 2000, which will result in future charges being recorded by the Company to reflect its proportionate share of those losses.

Income Tax Expense (Benefit)

Income tax expense (benefit) represents the benefit for federal and state income taxes at an effective tax rate of 28.1% for the second quarter of fiscal 2000, and the expense for federal and state income taxes at an effective tax rate of 34.5% for the comparable period in fiscal 1999. Income tax benefit represents the benefit for federal and state income taxes at an effective tax rate of 26.2% for the six months ended March 31, 2000, and 81.8% for the comparable period in fiscal 1999. The rate for the the three and six months ended March 31, 2000 reflects the impact of non-deductible merger-related expenses and amortization of goodwill arising from the foreign acquisitions.

Minority Interest in Subsidiary

Minority interest in subsidiary was $0.4 million and $0.6 million in the second quarters of fiscal 2000 and 1999, respectively, and $0.9 million and $1.1 million in the six months ended March 31, 2000 and 1999, respectively, resulting from Telebanc's interest payments to subsidiary trusts which have issued Company-obligated mandatorily redeemable capital securities and which hold junior subordinated debentures of the Company.

Cumulative Effect of Change in Accounting Principle

Cumulative effect of change in accounting principle was $0.5 million in the three and six months ended March 31, 1999, resulting from the implementation by Telebanc of Statement of Position 98-5, Reporting on the Cost of Start-Up Activities, which requires that the cost of start-up activities be expensed as incurred rather than capitalized, with initial application reported as the cumulative effect of a change in accounting principle.

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Liquidity and Capital Resources

The Company has financing facilities totaling $425 million to meet the needs of E*TRADE Securities that would be collateralized by customer securities. There were no borrowings outstanding under these lines on March 31, 2000. The Company also had a short term loan for up to $150 million, collateralized by publicly-traded investment securities owned by the Company. In December 1999, the Company obtained a $150 million line of credit agreement with a syndicate of banks. The line of credit, which had an expiration date of March 31, 2000, was dissolved by the Company in February 2000 following the Company's issuance of convertible subordinated notes and repayment of the $145 million outstanding balance. The Company also has a short term line of credit for up to $50 million, collateralized by marketable securities owned by the Company, of which $32 million was outstanding as of March 31, 2000. In addition, the Company has entered into numerous agreements with other broker-dealers to provide financing under the Company's stock loan program.

On February 7, 2000, the Company completed a Rule 144A offering of $500 million convertible subordinated notes due February 2007. The notes are convertible, at the option of the holder, into a total of 21,186,441 shares of the Company's common stock at a conversion price of $23.60 per share. The notes bear interest at 6%, payable semiannually, and are non-callable for three years and may then be called by the Company at a premium, which declines over time. The holders have the right to require redemption at a premium in the event of a change in control or other defined redemption event. On March 17, 2000, the initial purchasers exercised an option to purchase an additional $150 million of notes, which are convertible into 6,355,932 shares of common stock. The Company used $145 million of the $631.3 million in net proceeds to pay the outstanding balance on a line of credit in February 2000. The Company expects to use the remaining net proceeds for general corporate purposes, including the future growth of the business. Debt issuance costs of $19.1 million are included in other assets and are being amortized to interest expense over the term of the notes. Had these securities been issued at the beginning of the fiscal year, and the proceeds used to repay the outstanding balance on the $150 million line of credit agreement, loss per share would have increased to $0.12 and $0.18 for the three and six months ended

March 31, 2000, respectively, compared to $0.08 and $0.11 for the three and six months ended March 31, 1999, respectively, due to the additional net interest expense and issuance costs associated with the securities.

The Company currently anticipates that its available cash resources and credit facilities, along with the convertible subordinated debt offering described above, will be sufficient to meet its presently anticipated working capital and capital expenditure requirements for at least the next 12 months. However, the Company may need to raise additional funds in order to support more rapid expansion, develop new or enhanced services and products, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. The Company's future liquidity and capital requirements will depend upon numerous factors, including costs and timing of expansion of research and development efforts and the success of such efforts, the success of the Company's existing and new service offerings and competing technological and market developments. The Company's forecast of the period of time through which its financial resources will be adequate to support its operations is a forward-looking statement that involves risks and uncertainties, and actual results could vary. The factors described earlier in this paragraph will impact the Company's future capital requirements and the adequacy of its available funds. If additional funds are raised through the issuance of equity securities, the percentage ownership of the shareowners of the Company will be reduced, shareowners may experience additional dilution in net book value per share or such equity securities may have rights, preferences or privileges senior to those of the holders of the Company's common stock. There can be no assurance that additional financing will be available when needed on terms favorable to the Company, if at all.

If adequate funds are not available on acceptable terms, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on the Company's business, financial condition and operating results.

Cash used in operating activities was $217.1 million for the six months

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ended March 31, 2000 compared to cash provided by operating activities of $84.4 million in the equivalent period in fiscal 1999. Cash used in operating activities primarily reflects the increase in brokerage-related assets in excess of liabilities of $220.6 million, an increase in segregated cash balances of $120.0 million and an increase in other assets and intangibles of $129.1 million offset by an increase in accounts payable, accrued and other liabilities of $271.3 million. Cash provided by operating activities in the prior year period primarily reflects proceeds from the sales and maturities of loans, net of purchases, of $45.4 million, proceeds from the sales and maturities of trading assets, net of purchases, of $36.8 million, and an increase in interest credited to customer deposits of $48.2 million, offset by an increase in brokerage-related assets in excess of liabilities of $22.9 million.

Cash used in investing activities was $2,660 million for the six months ended March 31, 2000 and $686.7 million in the equivalent period in fiscal 1999. For the six months ended March 31, 2000, cash used in investing activities was the result of the excess of purchases of investments over the net sale/maturity of investments of $1,586 million, purchases of $80.0 million of property and equipment, an increase in loans held for investment of $903.1 million, increase in restricted deposits of $64.6 million, and $26.7 million paid for the acquisition of three foreign affiliates. This compares to cash used in investing activities in the equivalent period of fiscal 1999 where the Company had an excess of purchases of investments over the net sale/maturity of investments of $253.3 million, purchases of $31.6 million of property and equipment, and an increase in loans held for investment of $401.9 million.

Cash provided by financing activities was $3,123 million for the six months ended March 31, 2000, compared with $630.7 million in the equivalent period in fiscal 1999. Cash provided by financing activities for the six months ended March 31, 2000 primarily resulted from $3,832 million in increased banking deposits, advances from the Federal Home Loan Bank of Atlanta, increases in securities sold under agreements to repurchase, and the issuance of $631.3 million in convertible subordinated debt, net of issuance costs offset by $1,398 million in payments on outstanding loans. Cash provided by financing activities in the comparable period of fiscal 1999 primarily resulted from $1,633 million in increased banking deposits, advances from the Federal Home Loan Bank of Atlanta and increases in securities sold under agreements to repurchase, offset by $1,018 million in payments on outstanding loans.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision in our company. The risks and uncertainties described below are not the only ones facing our company and there may be additional risks that we do not presently know of or that we currently deem immaterial. All of these risks may impair our business operations. This document also contains forward-looking statements that involve risks and uncertainties and actual results may differ materially as a result of certain factors, including those set forth below and elsewhere in this filing. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

In accordance with "plain English" guidelines provided by the Securities and Exchange Commission, the risk factors have been written in the first person.

We could suffer substantial losses and be subject to customer litigation if our systems fail or our transaction processing is slow

We receive and process transactions mostly through the Internet, online service providers and touch-tone telephone. Thus, we depend heavily on the integrity of the electronic systems supporting these types of transactions, including our internal software programs and computer systems. Our systems or any other systems in the transaction process could slow down significantly or fail for a variety of reasons including:

- undetected errors in our internal software programs or computer systems;

- our inability to effectively resolve any errors in our internal software

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programs or computer systems once they are detected; or

. heavy stress placed on our system during certain peak trading times.

If our systems or any other systems in the transaction process slow down significantly or fail even for a short time, our customers could suffer delays in transaction processing, which could cause substantial losses and possibly subject us to claims for such losses or to litigation claiming fraud or negligence. We have experienced such systems failures and degradation in the past, including certain days in February 1999. We could experience future system failures and degradations, especially in foreign markets where we must implement new transaction processing infrastructures. To promote customer satisfaction and protect our brand name, we have, on certain occasions, compensated customers for verifiable losses from such failures. To date, during our systems failures, we were able to take orders by telephone, however, with respect to our brokerage transactions, only associates with securities brokers' licenses can accept telephone orders. An adequate number of such associates may not be available to take customer calls in the event of a future systems failure. We may not be able to increase our customer service personnel and capabilities in a timely and cost-effective manner. We could experience a number of adverse consequences as a result of these systems failures including the loss of existing customers and the inability to attract or retain new customers. There can be no assurance that our network structure will operate appropriately in any of the following events:

. subsystem, component or software failure;

. a power or telecommunications failure;

. human error;

. an earthquake, fire or other natural disaster; or

. an act of God or war.

There can be no assurance that, in any such event, we will be able to prevent an extended systems failure. Any such systems failure that interrupts our operations could have a material adverse effect on our business, financial condition and operating results. We have received in the past, including as a result of our systems

failures in February 1999, adverse publicity in the financial press and in online discussion forums primarily relating to systems failures.

Our security could be breached, which could damage our reputation and deter customers from using our services

We must protect our computer systems and network from physical break-ins, security breaches and other disruptive problems caused by the Internet or other users. Computer break-ins could jeopardize the security of information stored in and transmitted through our computer systems and network, which could adversely affect our ability to retain or attract customers, damage our reputation and subject us to litigation. We have in the past, and could in the future, be subject to denial of service, vandalism and other attacks on our systems by Internet hackers. Although we intend to continue to implement security technology and establish operational procedures to prevent break-ins, damage and failures, these security measures may fail. Our insurance coverage in certain circumstances may be insufficient to cover issues that may result from such events.

Our business could suffer if we cannot protect the confidentiality of customer information transmitted over public networks

A significant barrier to online commerce is the secure transmission of confidential information over public networks. We rely on encryption and authentication technology, including cryptography technology licensed from RSA Data Security, Inc., to provide secure transmission of confidential information. There can be no assurance that advances in computer and cryptography capabilities or other developments will not result in a compromise of the RSA or other algorithms we use to protect customer transaction data. If any such compromise of our security were to occur, it could have a material adverse effect on our business, financial condition and

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operating results.

Our quarterly results fluctuate and do not reliably indicate future operating results

We do not believe that our historical operating results should be relied upon as an indication of our future operating results. We expect to experience large fluctuations in future quarterly operating results that may be caused by many factors, including the following:

- fluctuations in the fair market value of our equity investments in other companies, including through existing or future private investment funds managed by us;
- fluctuations in interest rates, which will impact our investment and loan portfolios;
- increased levels of advertising, sales and marketing expenditures for customer acquisition, which may be affected by competitive conditions in the marketplace;
- the timing of introductions or enhancements to online investing services and products by us or our competitors;
- market acceptance of online financial services and products;
- the pace of development of the market for online commerce;
- changes in trading volume in securities markets;
- trends in securities and banking markets;
- domestic and international regulation of the brokerage, banking and internet industries;
- implementation of new accounting pronouncements, such as Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities;
- changes in domestic or international tax rates;

- changes in pricing policies by us or our competitors;
- changes in strategy;
- the success of, or costs associated with, acquisitions, joint ventures or other strategic relationships;
- changes in key personnel;
- seasonal trends;
- the extent of international expansion;
- the mix of international and domestic revenues;
- fluctuation in foreign exchange rates;
- changes in the level of operating expenses to support projected growth; and
- general economic conditions.

We have also experienced fluctuations in the average number of customer transactions per day. Thus, the rate of growth in customer transactions at any given time is not necessarily indicative of future transaction activity.

Our business will suffer if we cannot effectively compete

The market for financial services over the Internet is new, rapidly evolving and intensely competitive. We expect competition to continue and intensify in the future. We face direct competition from financial

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institutions, brokerage firms, banks, mutual fund companies, Internet portals and other organizations. These competitors include, among others:

- American Express
- America Online, Inc.;
- Ameritrade, Inc.;
- Bank of America;
- Charles Schwab & Co., Inc.;
- Citigroup, Inc.;
- CyBerCorp.com;
- Datek Online Holdings Corporation;
- DLJdirect;
- Fidelity Brokerage Services, Inc.;
- Intuit Inc.;
- Merrill Lynch, Pierce, Fenner & Smith Incorporated;
- Microsoft Money;
- National Discount Brokers;
- Net.B@nk, Inc.;
- PaineWebber Incorporated;
- Quick & Reilly, Inc.;
- Salomon Smith Barney, Inc.;
- SURETRADE, Inc.;

- TD Waterhouse Securities, Inc.;
- Wells Fargo & Company;
- WingspanBank.com; and
- Yahoo! Inc.

Many of our competitors have longer operating histories and significantly greater financial, technical, marketing and other resources than we do. In addition, many of our competitors offer a wider range of services and financial products than we do, and thus may be able to respond more quickly to new or changing opportunities, technologies and customer requirements. Many of our competitors also have greater name recognition and larger customer bases that could be leveraged, thereby gaining market share from us. Such competitors may conduct more extensive promotional activities and offer better terms and lower prices to customers than we do, possibly even sparking a price war in the online financial services industry. Moreover, certain competitors have established cooperative relationships among themselves or with third parties to enhance their services and products. For example, Charles Schwab's One-Source mutual fund service and similar services may discourage potential customers from using our brokerage services. Accordingly, it is possible that new competitors or alliances among existing competitors may significantly reduce our market share.

General financial success within the financial services industry over the past several years has strengthened existing competitors. We believe that such success will continue to attract new competitors, such as software development companies, insurance companies and others, as such companies expand their product lines. Commercial banks and other financial institutions have become more competitive with our brokerage operations by offering their customers

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certain corporate and individual financial services traditionally provided by securities firms. The current trend toward consolidation in the commercial banking industry could further increase competition in all aspects of our business. Commercial banks generally are expanding their securities and financial services activities. While we cannot predict the type and extent of competitive services that commercial banks and other financial institutions ultimately may offer, we may be adversely affected by such competition. To the extent our competitors are able to attract and retain customers, our business or ability to grow could be adversely affected. In many instances, we are competing with such organizations for the same customers. In addition, competition among financial services firms exists for experienced technical and other personnel.

There can be no assurance that we will be able to compete effectively with current or future competitors or that such competition will not have a material adverse effect on our business, financial condition and operating results.

Our success depends on our ability to effectively adapt to changing business conditions

We have grown rapidly and our business and operations have changed substantially since we began offering electronic investing services in 1992, and Internet investing services in February 1996, and we expect this trend to continue. Such rapid change and expansion places significant demands on our administrative, operational, financial, and technical management and other resources.

We expect operating expenses and staffing levels to increase substantially in the future. In particular, we have hired and intend to hire a significant number of additional skilled personnel, including persons with experience in the computer, brokerage and banking industries, and, specifically, persons with Series 7 or other broker-dealer licenses. Competition for such personnel is intense, and there can be no assurance that we will be able to find or keep additional suitable senior managers or technical persons or licensed representatives in the future. In particular, we depend heavily on our chief executive officer, president and chief operating officer and other members of senior management, the loss of any of whom could seriously harm our business. We also expect to expend resources for future expansion of our accounting and internal information management systems and for a number of other new systems and procedures. In addition, we expect that future expansion will continue to challenge our ability to successfully hire and retain associates. If our revenues do not keep up with operating

expenses, our information management systems do not expand to meet increasing demands, we fail to attract, assimilate and retain qualified personnel, or we fail to manage our expansion effectively, there could be a material adverse effect on our business, financial condition and operating results.

The rapid growth in the use of our services has strained our ability to adequately expand technologically. As we acquire new equipment and applications quickly, we have less time to test and validate hardware and software, which could lead to performance problems. We also rely on a number of third parties to process our transactions, including online and Internet service providers, back office processing organizations, service providers and market-makers, all of which will need to expand the scope of the operations they perform for us. Any backlog caused by a third party's inability to expand sufficiently to meet our needs could have a material adverse effect on our business, financial condition and operating results. As transaction volume increases, we may have difficulty hiring and training qualified personnel at the necessary pace, and the shortage of licensed personnel could cause a backlog in the processing of brokerage orders that need review, which could lead to not only unsatisfied customers, but also to liability for brokerage orders that were not executed on a timely basis.

Through our Digital Financial Media initiative, we plan to deliver interactive multimedia content and commerce through a variety of broadband communications channels and electronic platforms. We believe that achieving success in this strategy is essential to our ability to compete in the rapidly evolving electronic marketplaces in which we operate. We have limited experience in these media and our failure to execute this strategy successfully may limit our future growth.

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Our ability to attract customers and our profitability may suffer if changes in government regulation favor our competition or restrict our business practices

The securities and banking industries in the United States are each subject to extensive regulation under both federal and state laws. Broker-dealers are subject to regulations covering all aspects of the securities business, including:

- sales methods;
- trade practices among broker-dealers;
- use and safekeeping of customers' funds and securities;
- capital structure;
- record keeping;
- advertising;
- conduct of directors, officers and employees; and
- supervision.

Because we are a self-clearing broker-dealer, we have to comply with many complex laws and rules. These include rules relating to possession and control of customer funds and securities, margin lending and execution and settlement of transactions. Our ability to so comply depends largely on the establishment and maintenance of a qualified compliance system.

Similarly, E*TRADE and Telebanc, as savings and loan holding companies, and Telebank, as a federally chartered savings bank and subsidiary of Telebanc, are subject to extensive regulation, supervision and examination by the Office of Thrift Supervision ("OTS") and, in the case of Telebank, the Federal Deposit Insurance Corporation. Such regulation covers all aspects of the banking business, including lending practices, safeguarding deposits, capital structure, record keeping, and conduct and qualifications of personnel.

In November 1999, the Gramm-Leach-Bliley Act was enacted into law. This act reduces the legal barriers between banking, securities and insurance companies, and will make it easier for bank holding companies to compete directly with our securities business, as well as for our competitors in the securities business to diversify

their revenues and attract additional customers through entry into the banking and insurance businesses. The Gramm-Leach-Bliley Act may have a material impact on the competitive landscape that we face.

Additionally our mode of operation and profitability may be directly affected by:

- additional legislation;
- changes in rules promulgated by the SEC, the National Association of Securities Dealers, Inc., ("NASD"), the Board of Governors of the Federal Reserve System, the OTS, the various stock exchanges and other self-regulatory organizations; or
- changes in the interpretation or enforcement of existing laws and rules.

The SEC, the NASD or other self-regulatory organizations and state securities commissions can censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees. The OTS may take similar action with respect to our banking activities. Our ability to comply with all applicable laws and rules is largely dependent on our establishment and maintenance of a system to ensure such compliance, as well as our ability to attract and retain qualified compliance personnel. Our growth has placed considerable strain on our ability to ensure such compliance. We could be subject to disciplinary or other actions due to claimed noncompliance in the future, which could have a material adverse

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effect on our business, financial condition and operating results.

We have initiated an aggressive marketing campaign designed to bring brand name recognition to E*TRADE and E*TRADE Bank. All marketing activities by E*TRADE Securities are regulated by the NASD, and all marketing materials must be reviewed by an E*TRADE Securities Series 24 licensed principal prior to release. The NASD has in the past asked us to revise certain marketing materials. The NASD can impose certain penalties for violations of its advertising regulations, including:

- censures or fines;
- suspension of all advertising;
- the issuance of cease-and-desist orders; or
- the suspension or expulsion of a broker-dealer or any of its officers or employees.

We do not currently solicit orders from our customers or make investment recommendations. However, if we were to engage in such activities, we would become subject to additional rules and regulations governing, among other things, sales practices and the suitability of recommendations to customers.

We intend to continue expanding our business to other countries and to broaden our customers' abilities to trade securities of non-U.S. companies and execute other transactions through the Internet and other gateways. In order to expand our services globally, we must comply with the regulatory controls of each specific country in which we conduct business. Our international expansion could be limited by the compliance requirements of other national regulatory jurisdictions. We intend to rely primarily on local third parties and our subsidiaries for regulatory compliance in international jurisdictions. See "Risk Factors--We face numerous risks associated with doing business in international markets."

There can be no assurance that other federal, state or foreign agencies will not attempt to regulate our online and other activities. We anticipate that we may be required to comply with record keeping, data processing and other regulatory requirements as a result of proposed federal legislation or otherwise. We may also be subject to additional regulation as the market for online commerce evolves. Because of the growth in the electronic commerce market, Congress has held hearings on whether to regulate providers of services and transactions in the electronic commerce market. As a result, federal or state authorities could enact laws, rules or regulations affecting our business or operations. We may also be subject to federal, state or foreign money transmitter laws and state and foreign sales or use tax laws. If such laws are enacted or deemed applicable to us, our business or operations would be rendered more costly or burdensome, less efficient or even impossible. Any of the foregoing could have a material adverse effect on our business, financial condition and operating results.

Due to the increasing popularity of the Internet, laws and regulations may be passed dealing with issues such as user privacy, pricing, content and quality of products and services.

As required by the Gramm-Leach-Bliley Act, the SEC and OTS have recently proposed regulations on financial privacy, to take effect in November 2000, that will require E*TRADE Securities and Telebank to notify consumers about the circumstances in which they may share consumers' personal information with unaffiliated third parties and to give consumers the right to opt out of such information sharing. Although E*TRADE Securities and Telebank already provide such opt-out rights in our privacy policies, the regulations could require us to modify the text and the form of presentation of our privacy policies and to incur additional expense to ensure ongoing compliance with the regulations.

In addition, the New York Attorney General carried out an investigation of the online brokerage industry and issued a report, citing consumer complaints about delays and technical difficulties conducting online stock trading. SEC Commissioner Laura Unger also issued a report on issues raised by online brokerage, including suitability and marketing issues. Increased attention focused upon these issues could adversely affect the growth of the online financial services industry, which could, in turn, decrease the demand for our

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services or could otherwise have a material adverse effect on our business, financial condition and operating results.

We may be fined or forced out of business if we do not maintain the net capital levels required by regulators

The SEC, NASD, OTS and various other regulatory agencies have stringent rules with respect to the maintenance of specific levels of net capital by securities broker-dealers and regulatory capital by banks. Net capital is the net worth of a broker or dealer (assets minus liabilities), less deductions for certain types of assets. If a firm fails to maintain the required net capital it may be subject to suspension or revocation of registration by the SEC and suspension or expulsion by the NASD, and could ultimately lead to the firm's liquidation. In the past, our broker-dealer subsidiaries have depended largely on capital contributions by us in order to comply with net capital requirements. If such net capital rules are changed or expanded, or if there is an unusually large charge against net capital, operations that require the intensive use of capital would be limited. Such operations may include trading activities and the financing of customer account balances. Also, our ability to withdraw capital from brokerage subsidiaries could be restricted, which in turn could limit our ability to pay dividends, repay debt and redeem or purchase shares of our outstanding stock. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain our present levels of business, which could have a material adverse effect on our business, financial condition and operating results.

The table below summarizes the minimum net capital requirements for our domestic broker-dealer subsidiaries as of March 31, 2000 (in thousands):

	Required net capital	Net capital	Excess net capital
E*TRADE Securities, Inc.	$128,404	$479,326	$350,922
TIR Securities, Inc.	250	2,522	2,272
TIR Investor Select, Inc.	5	367	362
Marquette Securities, Inc.	250	475	225
Telebanc Capital Markets, Inc.	213	18,710	18,497

Similarly, banks, such as Telebank, are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory--and possibly additional discretionary--actions by regulators that, if undertaken, could have a direct material effect on a bank's operations and financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, a bank must meet specific capital guidelines that involve quantitative measures of a bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. A bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require a bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. To be categorized as well capitalized a bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following table.

The table below summarizes the capital adequacy requirements for Telebank as of March 31, 2000 (dollars in thousands):

To Be Well
Capitalized Under
Prompt Corrective

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	Actual		Action Provisions	
	Amount	Ratio	Amount	Ratio
Core Capital (to adjusted tangible assets)	$471,179	7.32%	> $322,202	> 5.0%
Tier I Capital (to risk weighted assets)	$471,179	18.36%	> $153,825	> 6.0%
Total Capital (to risk weighted assets)	$479,516	18.04%	> $256,376	> 10.0%

As a significant portion of our revenues come from online investing services, any downturn in the securities industry could significantly harm our business

A significant portion of our revenues in recent years has been from online investing services, and we expect this business to continue to account for a significant portion of our revenues in the foreseeable future. We, like other financial services firms, are directly affected by economic and political conditions, broad trends in business and finance and changes in volume and price levels of securities and futures transactions. The U.S. securities markets are characterized by considerable fluctuation and a downturn in these markets could adversely affect our operating results. In October 1987 and October 1989, the stock market suffered major declines, as a result of which many firms in the industry suffered financial losses, and the level of individual investor trading activity decreased after these events. Reduced trading volume and prices have historically resulted in reduced transaction revenues. When trading volume is low, our operating results may be adversely affected because overhead remains relatively fixed. Severe market fluctuations in the future could have a material adverse effect on our business, financial condition and operating results. Some of our competitors with more diverse product and service offerings might withstand such a downturn in the securities industry better than we would. See "Risk Factors--Our business will suffer if we cannot effectively compete."

Our brokerage business, by its nature, is subject to various other risks, including customer default and employee misconduct and errors. We sometimes allow customers to purchase securities on margin, therefore we are affected because we are subject to risks inherent in extending credit. This risk is especially great when the market is rapidly declining and the value of the collateral we hold could fall below the amount of a customer's indebtedness. Under specific regulatory guidelines, any time we borrow or lend securities, we must correspondingly disburse or receive cash deposits. If we fail to maintain adequate cash deposit levels at all times, we run the risk of loss if there are sharp changes in market values of many securities and parties to the borrowing and lending transactions fail to honor their commitments. Any such losses could have a material adverse effect on our business, financial condition and operating results.

Changes in interest rates may reduce Telebanc's profitability

The results of operations for Telebanc depend in large part upon the level of its net interest income, that is, the difference between interest income from interest-earning assets, such as loans and mortgage-backed securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. If Telebanc is unsuccessful in managing the effects of changes in interest rates, its financial condition and results of operations could suffer.

Changes in market interest rates could reduce the value of Telebanc's financial assets. Fixed-rate investments, mortgage-backed and related securities and mortgage loans generally decline in value as interest rates rise.

We could lose customers and have difficulty attracting new customers if we are unable to quickly introduce new products and services that satisfy changing customer needs

Our future success depends, in part, on our ability to develop and enhance

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our services and products. There are significant technical risks in the development of new services and products or enhanced versions of existing services and products. There can be no assurance that we will be successful in achieving any of the following:

- effectively using new technologies;
- adapting our services and products to emerging industry standards;
- developing, introducing and marketing service and product enhancements; or
- developing, introducing and marketing new services and products.

We may also experience difficulties that could delay or prevent the development, introduction or marketing of these services and products. Our status as a regulated savings and loan holding company resulting from the acquisition of Telebanc could also lead to delays in or prevent the development, introduction and marketing of new services and products. Additionally, these new services and products may not adequately meet the requirements of the marketplace or achieve market acceptance. If we are unable to develop and introduce enhanced or new services and products quickly enough to respond to market or customer requirements, or if they do not achieve market acceptance, our business, financial condition and operating results will be materially adversely affected.

Our success depends upon the growth of the Internet as a commercial marketplace

The market for financial services, particularly over the Internet, is rapidly evolving. Consequently, demand and market acceptance for recently introduced services and products are subject to a high level of uncertainty. For us, this uncertainty is compounded by the risks that consumers will not continue to adopt online commerce and that commerce on the Internet will not adequately develop or flourish to permit us to continue to grow.

Sales of many of our services and products will depend on consumers continuing to adopt the Internet as a method of doing business. There can be no assurance that the Internet infrastructure will continue to be able to support the demands placed on it by this continued growth. In addition, the Internet could be adversely affected by slow development or adoption of standards and protocols to handle increased Internet activity, or due to increased governmental regulation. Moreover, critical issues including security, reliability, cost, ease of use, accessibility and quality of service remain unresolved and may negatively affect the growth of Internet use or commerce on the Internet.

Adoption of online commerce by individuals who have relied upon traditional means of commerce in the past will require such individuals to accept new and very different methods of conducting business. Moreover, our brokerage and banking services over the Internet involve a new approach to securities trading and banking which require extensive marketing and sales efforts to educate prospective customers regarding their uses and benefits. For example, consumers who trade with traditional brokerage firms, or even discount brokers, may be reluctant or slow to change to obtaining brokerage services over the Internet. Also, concerns about security and privacy on the Internet may hinder the growth of online investing and banking, which could have a material adverse effect on our business, financial condition and operating results.

The market price of our common stock, like other technology stocks, may be highly volatile and any significant decrease in our stock price may make it difficult for our shareowners to sell their stock

The market price of our common stock has been, and is likely to continue to be, highly volatile and subject to wide fluctuations due to various factors, many of which may be beyond our control, including:

- quarterly variations in operating results;
- volatility in the stock market;

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- volatility in the general economy;

- changes in interest rates;

- announcements of acquisitions, technological innovations or new software, services or products by us or our competitors; and

- changes in financial estimates and recommendations by securities analysts.

In addition, there have been large price and volume fluctuations in the stock market which have affected the market prices of securities of many technology, Internet and financial services companies, often unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, volatility in the market price of a company's securities has often led to securities class action litigation. Such litigation could result in substantial costs and a diversion of our attention and resources, which could have a material adverse effect on our business, financial condition and operating results.

Our success depends on our ability to protect our intellectual property and any failure to do so could substantially harm our business

Our success and ability to compete are dependent to a significant degree on our proprietary technology. We rely primarily on copyright, trade secret and trademark law to protect our technology and our brand. Effective trademark protection may not be available for our trademarks. Although we have registered the trademark "E*TRADE" in the United States and certain other countries, and have certain other registered trademarks, there can be no assurance that we will be able to secure significant protection for these trademarks. Our competitors or others may adopt product or service names similar to "E*TRADE," thereby impeding our ability to build brand identity and possibly leading to customer confusion. Our inability to adequately protect the name "E*TRADE" could have a material adverse effect on our business, financial condition and operating results. Despite any precautions we take, a third party may be able to copy or otherwise obtain and use our software or other proprietary information without authorization or to develop similar software independently. Policing unauthorized use of our technology is made especially difficult by the global nature of the Internet and difficulty in controlling the ultimate destination or security of software or other data transmitted on it. The laws of other countries may afford us little or no effective protection for our intellectual property. There can be no assurance that the steps we take will prevent misappropriation of our technology or that agreements entered into for that purpose will be enforceable. In addition, litigation may be necessary in the future to:

- enforce our intellectual property rights;

- protect our trade secrets;

- determine the validity and scope of the proprietary rights of others; or

- defend against claims of infringement or invalidity.

Such litigation, whether successful or unsuccessful, could result in substantial costs and diversion of resources, either of which could have a material adverse effect on our business, financial condition and operating results.

We may face claims for infringement of third parties' proprietary rights and it could be costly and time-consuming to defend against such claims, even those without merit

We have received in the past, and may receive in the future, notices of claims of infringement of other parties' proprietary rights. There can be no assurance that claims for infringement or invalidity--or any indemnification claims based on such claims--will not be asserted or prosecuted against us. Any such claims, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources or require us to enter into royalty or licensing agreements. There can be no assurance that such licenses would be available on reasonable terms, if at all, and the assertion

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or prosecution of any such claims could have a material adverse effect on our business, financial condition and operating results.

Our attempts to enter new markets may be unsuccessful, which could decrease our earnings and consequently decrease the market value of our common stock

One element of our strategy is to leverage the E*TRADE brand and technology to enter new markets. No assurance can be given that we will be able to successfully adapt our proprietary processing technology for use in other markets. Even if we do adapt our technology, no assurance can be given that we will be able to compete successfully in any such new markets. There can be no assurance that our pursuit of any of these opportunities will be successful. If these efforts are not successful, we could realize less than expected earnings, which in turn could result in a decrease in the market value of our common stock. Furthermore, such efforts may divert management attention or inefficiently utilize our resources.

As a result of our recent merger with Telebanc, we face numerous new risks, including possible failure to successfully integrate and assimilate Telebanc's operations with our own

On January 12, 2000, we acquired Telebanc. Telebanc is an online provider of Internet banking services. This represents a new line of business for us. No assurance can be given that we will be successful in this market. We may experience difficulty in assimilating Telebanc's products and services with our own and we may not be able to integrate successfully the employees of Telebanc into our organization. These difficulties may be exacerbated by the geographical distance between our various locations and Telebanc's Virginia location. If we fail to successfully integrate Telebanc's operations with our own, our operating results and business could be adversely affected.

Telebank holds a loan portfolio consisting primarily of one- to four-family residential loans. A critical component of the banking industry is the ability to accurately assess credit risk and establish corresponding loan loss reserves. Our status as a regulated savings and loan holding company resulting from the acquisition of Telebanc could also lead to delays or prevent the development, introduction and marketing of new services and products. This is a new industry for E*TRADE and accordingly, we are dependent upon Telebanc management and employees to advise us in this area.

Due to our recent merger with Telebanc, we may be restricted in expanding our activities, and our inexperience with being regulated as a savings and loan holding company could negatively affect both E*TRADE and Telebanc

Upon the completion of our acquisition of Telebanc and its subsidiary, Telebank, on January 12, 2000, we became subject to regulation as a savings and loan holding company. As a result, we are required to register with the OTS and file periodic reports, and are subject to examination by the OTS. Under financial modernization legislation recently enacted into law, our activities are restricted to activities that are financial in nature and certain real estate-related activities. We may also make merchant banking investments in companies whose activities are not financial in nature, if those investments are engaged in for the purpose of appreciation and ultimate resale of the investment, and we do not manage or operate the company. Such merchant banking investments may be subject to maximum holding periods and special capital requirements.

We believe that all of our existing activities and investments are permissible under the new legislation, but the OTS has not yet issued regulations or otherwise interpreted the new statute. Even if all of our existing activities and investments are permissible, under the new legislation we will be constrained in pursuing future new activities that are not financial in nature. We are also limited in our ability to invest in other savings and loan holding companies, and all transactions between E*TRADE and Telebank must be conducted on an arms' length basis.

In addition to regulation of E*TRADE and Telebanc as savings and loan holding companies, federal savings banks such as Telebank are subject to extensive regulation of their activities and investments, their capitalization, their risk management policies and procedures, and their relationship with affiliated companies. In addition, as a condition to approving our acquisition of Telebanc, the OTS imposed various notice and

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other requirements, primarily a requirement that Telebank obtain prior approval from the OTS of any future material changes to Telebank's business plan. These regulations and conditions, and our inexperience with them, could affect our ability to realize synergies from the merger, and could negatively affect both E*TRADE and Telebank following the merger.

We face numerous risks associated with doing business in international markets

One component of our strategy is a planned increase in efforts to attract more international customers. To date, we have limited experience in providing brokerage services internationally, and Telebanc has had only limited experience providing banking services to customers outside the United States. There can be no assurance that our international licensees or subsidiaries will be able to market our branded services and products successfully in international markets. In addition, there are certain risks inherent in doing business in international markets, particularly in the heavily regulated brokerage and banking industries, such as:

- unexpected changes in regulatory requirements, tariffs and other trade barriers;
- difficulties in staffing and managing foreign operations;
- the level of investor interest in cross-border trading;
- authentication of on-line customers;
- political instability;
- fluctuations in currency exchange rates;
- reduced protection for intellectual property rights in some countries;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;
- the level of adoption of the Internet in international markets; and
- potentially adverse tax consequences.

Any of the foregoing could adversely impact the success of our international operations. In addition, because some of these international markets are served through license arrangements with others, we rely upon these third parties for a variety of business and regulatory compliance matters. We have limited control over the management and direction of these third parties. We run the risk that their action or inaction could harm our operations and/or the goodwill associated with our brand name. Additionally, certain of our international licensees have the right to sell sub-licenses. Generally, we have less control over sub-licensees than we do over licensees. As a result, the risk to our operations and goodwill is higher. There can be no assurance that one or more of the factors described above will not have a material adverse effect on our future international operations, if any, and, consequently, on our business, financial condition and operating results.

Any failure to successfully integrate the companies that we acquire into our existing operations or failure to maintain our relationships with strategic partners could harm our business

We recently acquired Telebanc, TIR and some of our European licensees. We may also acquire other companies or technologies in the future, and we regularly evaluate such opportunities. Acquisitions and mergers entail numerous risks, including:

- difficulties in the assimilation of acquired operations and products;
- diversion of management's attention from other business concerns;
- amortization of acquired intangible assets; and
- potential loss of key employees of acquired companies.

We have limited experience in assimilating acquired organizations into our

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operations. No assurance can be given as to our ability to integrate successfully any operations, technology, personnel, services or new businesses or products that might be acquired in the future. Failure to successfully assimilate acquired organizations could have a material adverse effect on our business, financial condition and operating results.

We have established a number of strategic relationships with online and Internet service providers, as well as software and information service providers. There can be no assurance that any such relationships will be maintained, or that if they are maintained, they will be successful or profitable. Additionally, we may not be able to develop any new relationships of this type in the future. We also make investments, either directly or through affiliated private investment funds, in equity securities of other companies without acquiring control of those companies. There may be no public market for the securities of the companies we invest in. In order for us to realize a return on our investment, such companies must be sold or successfully complete a public offering of their securities. There can be no assurance that such companies will be acquired or complete a public offering or that such an acquisition or public offering will allow us to sell our securities at a profit, or at all.

Due to the foregoing factors, quarterly revenues and operating results are difficult to forecast. We believe that period-to-period comparisons of our operating results will not necessarily be meaningful and you should not rely on them as any indication of future performance. Our future quarterly operating results may not consistently meet the expectations of securities analysts or investors, which in turn may have an adverse effect on the market price of our common stock.

We have substantially increased our indebtedness, which may make it more difficult to make payments on our debts or to obtain financing

As a result of our sale of 6% convertible subordinated notes, we have incurred $650 million of additional indebtedness, increasing our ratio of debt to equity (expressed as a percentage) to approximately 38% as of March 31, 2000. We may incur substantial additional indebtedness in the future. The level of our indebtedness, among other things, could

- make it difficult for us to make payments on our debt;
- make it difficult for us to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business; and
- make us more vulnerable in the event of a downturn in our business.

There can be no assurance that we will be able to meet our debt service obligations, including obligations under the notes.

Loss or reductions in revenue from order flow rebates could harm our business

Order flow revenue as a percentage of revenue has decreased over the past three years. There can be no assurance that payments for order flow will continue to be permitted by the SEC, the NASD or other regulatory agencies, courts or governmental units. Loss of any or all of these revenues could have a material adverse effect on our business, financial condition and operating results.

We may incur costs to avoid investment company status and may suffer adverse consequences if we are deemed to be an investment company

We may incur significant costs to avoid investment company status and may suffer other adverse consequences if we are deemed to be an investment company under the Investment Company Act of 1940, which is commonly referred to as the "1940 Act".

A company may be deemed to be an investment company if it owns investment securities with a value exceeding 40% of its total assets, subject to certain exclusions. After giving effect to the offering, we will have substantial

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short-term investments until the net proceeds from the offering can be deployed. In addition, we and our subsidiaries have made minority equity investments in other companies that may constitute investment securities under the 1940 Act. In particular, many of our publicly traded equity investments, which are owned directly by us or through related venture funds, are deemed to be investment securities. Although our investment securities currently comprise less than 40% of our total assets, the value of these minority investments has fluctuated in the past, and substantial appreciation in some of these investments may, from time to time, cause the value of our investment securities to exceed 40% of our total assets. These factors may result in us being treated as an "investment company" under the 1940 Act.

We believe we are primarily engaged in a business other than investing, reinvesting, owning, holding, or trading securities for our account and, therefore, are not an investment company within the meaning of the 1940 Act. However, in the event that such exemption is not available and the 40% limit were to be exceeded (including through fluctuations in the value of our investment securities), we may need to reduce our investment securities as a percentage of our total assets. This reduction can be attempted in a number of ways, including the sale of investment securities and the acquisition of non-investment security assets, such as cash, cash equivalents and government securities. If we sell investment securities, we may sell them sooner than we intended. These sales may be at depressed prices and we may never realize anticipated benefits from, or may incur losses on, these investments. Some investments may not be sold due to normal contractual or legal restrictions or the inability to locate a suitable buyer. Moreover, we may incur tax liabilities if we sell these assets. We may also be unable to purchase additional investment securities that may be important to our operating strategy. If we decide to acquire non-investment security assets, we may not be able to identify and acquire suitable assets, and will likely realize a lower return on any such investments.

If we were deemed to be an investment company, we could become subject to substantial regulation under the 1940 Act with respect to our capital structure, management, operations, affiliate transactions and other matters. As a consequence, we could be barred from engaging in business or issuing our securities as we have in the past and might be subject to civil and criminal penalties for noncompliance. In addition, some of our contracts might be voidable, and a court-appointed receiver could take control of us and liquidate our business in certain circumstances.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk, the Company has evaluated such risk for its brokerage and banking related operations separately due to the recent acquisition of Telebanc which represents a new line of business for the Company. The following discussion about the Company's market risk disclosures includes forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of certain factors, including those set forth in the section entitled "Risk Factors" and elsewhere in this filing. Reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K/A for the year ended September 30, 1999.

Brokerage and Investment Operations

The Company is exposed to market risk related to changes in interest rates, foreign currency exchange rates and equity security price risk. The Company does not have derivative financial instruments for speculative or trading purposes.

Interest Rate Sensitivity

During the quarter ended March 31, 2000, the Company had a variable rate bank line of credit. As of March 31, 2000, the Company had $32.0 million outstanding under this line. The line of credit and the monthly interest payment are subject to interest rate risk. If market interest rates were to increase immediately and uniformly by 10 percent at March 31, 2000, the interest payments would increase by an immaterial amount.

Equity Price Risk

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The Company has investments in publicly-traded equity securities. The fair value of these securities at March 31, 2000 was $533.9 million. If the market price of the securities held at March 31, 2000 were to decrease by 10%, the fair value of the portfolio would decline by $53.4 million, which would not have a material effect on the financial position of the Company. The Company accounts for these securities as available-for-sale, and unrealized gains and losses resulting from changes in the fair value of these securities are reflected as a change in shareowners' equity, and not reflected in the determination of operating results until the securities are sold. At March 31, 2000, unrealized gains on these securities were $498.4 million.

Financial Instruments

For its working capital and reserves, which are required to be segregated under Federal or other regulations, the Company invests in money market funds, resale agreements, certificates of deposit, and commercial paper. Money market funds do not have maturity dates and do not present a material market risk. The other financial instruments are fixed rate investments with short maturities and do not present a material interest rate risk.

Banking Operations

The Company manages its banking related interest rate risk through the use of financial derivatives such as interest rate cap, swap and floor agreements. The Company uses these instruments to ensure that the market value of equity and net interest income are protected from the impact of changes in interest rates. The Company has experienced no material changes in market risk pertaining to its banking operations during the quarter ended March 31, 2000.

PART II. OTHER INFORMATION

Item 1. Legal and Administrative Proceedings

On November 21, 1997, a putative class action was filed in the Superior Court of California, County of Santa Clara, by Larry R. Cooper on behalf of himself and other similarly situated individuals. The action alleges, among other things, that our advertising, other communications and business practices regarding our commission rates and our ability to timely execute and confirm transactions through our online brokerage services were false and deceptive. The action seeks injunctive relief enjoining the purported deceptive and unfair practices alleged in the action and also seeks unspecified compensatory and punitive damages, as well as attorney fees. On June 1, 1999, the court entered an order denying plaintiffs' motion for class certification. While the court declined to certify a class as to any of plaintiffs' alleged claims, it did indicate that plaintiffs may be able to pursue one of their claims (relating to our commission structure) on a representative basis. On January 25, 2000, the court ordered plaintiffs to submit all claims (including representative claims) seeking monetary relief to arbitration; claims for injunctive relief were not ordered to arbitration, but were stayed pending arbitration. We are unable to predict the ultimate outcome of this proceeding.

On February 11, 1999, a putative class action was filed in the Supreme Court of New York, County of New York, by Evan Berger, on behalf of himself and other similarly situated individuals. The action alleged, among other things, that our advertising, other communications and business practices regarding our ability to timely execute and confirm transactions through our online brokerage services were false and deceptive. Plaintiff seeks damages based on causes of action for breach of contract and violation of New York consumer protection statutes. After we filed a motion to dismiss or stay the complaint on April 14, 1999, the plaintiff chose to file an amended complaint. In response to that amended complaint, we have moved to compel arbitration or, alternatively, dismiss the amended complaint. By a Decision and Order, entered by the Court on March 28, 2000, the Court granted our motion to compel arbitration of plaintiff's breach of contract claim by dismissing plaintiff's breach of contract claim and ordering plaintiff to proceed to arbitration of that claim. The Court also granted our motion to dismiss by dismissing plaintiff's claims based on violation of New York's consumer protection statutes.

On March 1, 1999, a putative class action was filed in the Court of Common Pleas, Cuyahoga County, Ohio, by Truc Q. Hoang. The Hoang complaint seeks

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damages and injunctive relief arising out of, among other things, plaintiff's alleged problems accessing her account and placing orders. Plaintiff alleges causes of action for breach of contract, fiduciary duty and unjust enrichment, fraud, unfair and deceptive trade practices, negligence/intentional tort and injunctive relief. We have filed motions both to compel arbitration and to dismiss the complaint. All discovery regarding the merits of plaintiff's claims is stayed pending the determination of our motion to dismiss. On September 1, 1999, the court denied our motion to compel arbitration. We appealed the order and a hearing on the appeal took place on February 2, 2000. By a Journal Entry and Opinion, dated March 16, 2000, the Court of Appeals reversed the trial court's decision on the grounds that its resolution of our motion to compel arbitration was premature prior to resolution of whether the case should be certified as a class action. The Court of Appeals remanded the case to the trial court. This proceeding is still at an early stage and we are unable to predict its ultimate outcome.

On March 10, 1999, a putative class action was filed in the Superior Court of California, County of Santa Clara, by Raj Chadha. The Chadha complaint seeks damages and injunctive relief arising out of, among other things, the February 3, 4 and 5, 1999, system interruptions. Plaintiff brings causes of action for breach of fiduciary duty and violations of the Consumer Legal Remedies Act and California Unfair Business Practices Act. In response to the complaint, we filed a petition to compel arbitration. Among other things, we argued that, in light of the Cooper court's decision to deny class certification, all customers who were members of the alleged Cooper class--including Chadha--are obligated to submit their claims to arbitration in accordance with the customer agreement. The court granted the petition to compel arbitration on July 29, 1999, and stayed all further proceedings pending arbitration.

On March 11, 1999, a putative class action was filed in the Superior Court of California, County of Santa Clara, by Elie Wurtman. The Wurtman complaint seeks damages and injunctive relief arising out of, among other things, plaintiff's alleged problems accessing her account and placing orders. The complaint also makes allegations regarding access problems relating to our customers residing or traveling outside of the United States. Plaintiff brings causes of action for negligence and violations of the Consumer Legal Remedies Act and California Unfair Business Practices Act. In response to the complaint, we filed a petition to compel arbitration. As in Chadha, we argued that, in light of the Cooper court's decision to deny class certification, Wurtman is obligated to submit his claims to arbitration in accordance with the customer agreement. The petition to compel arbitration was heard by the court on September 9, 1999 and was denied. On October 4, 1999, we appealed the court's order denying the petition, and that appeal has the effect of staying all further proceedings in the trial court. Our opening brief on appeal was filed on March 28, 2000. This proceeding is still at an early stage and we are unable to predict the ultimate outcome.

On April 14, 1999, a putative class action was filed in the Superior Court of California, County of Los Angeles, by Matthew J. Rosenberg. Plaintiff seeks injunctive relief based on alleged violations of the California Unfair Business Practices Act regarding the extent to which shares in IPOs are made available to our customers. We filed a demurrer and motion to strike on August 13, 1999, arguing (among other things) that the plaintiff has not alleged facts sufficient to state a claim against us. On October 6, 1999, the court dismissed the class action claims with prejudice. The claim for unfair business practices was dismissed with leave to amend, but for injunctive relief only and not money damages. Plaintiff filed an amended complaint on October 26, 1999. We filed a petition to compel arbitration in response. On December 29, 1999, the court granted the petition to compel arbitration and dismissed the court proceeding. Plaintiff filed a notice of appeal on February 29, 2000. We are unable to predict the ultimate outcome of this proceeding.

On December 23, 1999, plaintiff Kathleen Nyquist filed a complaint in federal court. Ms. Nyquist is a customer who brings claims for breach of fiduciary duty, negligence/recklessness, unfair trade practices, securities law violations and aiding and abetting. Her claims against us arise out of allegedly unauthorized transactions and day-trading allegedly effected by her husband in her IRA account as well as another account. Plaintiff alleges losses totaling approximately $700,000 and also seeks attorney's fees, punitive damages as well as treble damages under the South Carolina unfair trade practices laws. We have made a motion to compel arbitration that is

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currently pending before the court. This proceeding is still at an early stage and we are unable to predict the ultimate outcome.

We believe that these claims are without merit and intend to defend against them vigorously. An unfavorable outcome in any matters which are not covered by insurance could have a material adverse effect on our business, financial condition and results of operations. In addition, even if the ultimate outcomes are resolved in our favor, the defense of such litigation could entail considerable cost and the diversion of efforts of management, either of which could have a material adverse effect on our results of operation.

From time to time, we have been threatened with, or named as a defendant in, lawsuits, arbitrations and administrative claims. Compliance and trading problems that are reported to the NASD or the SEC by dissatisfied customers are investigated by the NASD or the SEC and, if pursued by such customers, may rise to the level of arbitration or disciplinary action. One or more of such claims or disciplinary actions decided adversely against us could have a material adverse effect on our business, financial condition and results of operations. We are also subject to periodic regulatory audits and inspections.

The securities industry is subject to extensive regulation under federal, state and applicable international laws. As a result, we are required to comply with many complex laws and rules and our ability to so comply is dependent in large part upon the establishment and maintenance of a qualified compliance system. We are aware of several instances of our noncompliance with applicable regulations. In particular, in fiscal 1997, our failure to timely renew its broker dealer registration in Ohio resulted in a $4.3 million pre-tax charge against earnings.

We maintain insurance in such amounts and with such coverages, deductibles and policy limits as management believes are reasonable and prudent. The principal risks that we insure against are comprehensive general liability, commercial property, hardware/software damage, directors and officers, and errors and omissions liability. We believe that such insurance coverages are adequate for the purpose of our business.

Item 2. Changes in Securities and Use of Proceeds--Not applicable.

Item 3. Defaults Upon Senior Securities--Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders--None.

Item 5. Other Information--None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

* 4.1 Indenture, dated February 1, 2000, by and between the Company and The Bank of New York.

*10.1 Employment agreement, dated June 1, 1999, by and between the Company and Christos M. Cotsakos.

*10.2 Employment agreement, dated June 1, 1999, by and between the Company and Kathy Levinson.

*10.3 Purchase Agreement, dated February 1, 2000, by and among the Company, FleetBoston Robertson Stephens Inc., Hambrecht & Quist LLC and Goldman, Sachs & Co.

*10.4 Registration Rights Agreement, dated February 1, 2000, by and among the Company, FleetBoston Robertson Stephens Inc., Hambrecht & Quist LLC and Goldman, Sachs & Co.

*10.5 E*TRADE Ventures I, LLC, Limited Liability Company Operating Agreement.

*10.6 E*TRADE eCommerce Fund, L.P., Amended and Restated Limited Partnership Agreement.

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**10.7 E*TRADE Group, Inc. Note Secured by Deed of Trust dated March 17, 2000, by and between the Company and Theodore J. Theophilos.

**10.8 E*TRADE Group, Inc. Amendment to Note Secured by Deed of Trust, dated May 5, 1999, by and between the Company and Theodore J. Theophilos.

**27.1 Financial Data Schedule

*99.1 Press release, dated January 25, 2000, relating to the 6% convertible subordinated notes due 2007.

*99.2 Press release, dated February 2, 2000, relating to the 6% convertible subordinated notes due 2007.

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* Previously filed.

** Filed herewith.

(b) Reports on Form 8-K

On April 17, 2000, the Company filed a Current Report on Form 8-K to report the first period of consolidated results of E*TRADE and Telebanc Financial Corporation ("Telebanc"). The acquisition of Telebanc was completed on January 12, 2000 and was accounted for as a pooling of interests.

On January 27, 2000, the Company filed a Current Report on Form 8-K to report the final closing of its merger with Telebanc Financial Corporation.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

E*TRADE Group, Inc.
(Registrant)

Dated: May 15, 2000

/s/ Christos M. Cotsakos
By: ________________________________
Christos M. Cotsakos
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

/s/ Leonard C. Purkis
By: ________________________________
Leonard C. Purkis
Chief Financial Officer
(Principal Financial and
Accounting Officer)

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EXHIBIT 10.7

E*TRADE GROUP, INC.

NOTE SECURED BY DEED OF TRUST

$4,000,000.00

March 17, 2000
Menlo Park, California

FOR VALUE RECEIVED, Theodore J. Theophilos (the "Maker") promises to pay to the order of E*TRADE Group, Inc. (the ``Corporation''), at its corporate offices at 4500 Bohannon Drive, Menlo Park, CA 94025, the principal sum of Four Million Dollars ($4,000,000.00), together with all accrued interest thereon (the "Loan"), upon the terms and conditions specified below.

1. Interest. No interest shall accrue on the unpaid balance outstanding under this Note during the first 36 months of the Loan. Commencing on April 1, 2003, interest shall accrue on the unpaid balance outstanding from time to time under this Note at six and eight tenths percent (6.8%), compounded annually. All computations of interest shall be made on the basis of a year of 360 days for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Anything herein to the contrary notwithstanding, if during any period for which interest is computed hereunder the amount of interest computed on the basis provided for in this Note, together with all fees, charges and other payments which are treated as interest under applicable law, as provided for herein or in any other document executed in connection herewith, would exceed the amount of such interest computed on the basis of the Highest Lawful Rate (as defined below), the Maker shall not be obligated to pay, and the Corporation shall not be entitled to charge, collect, receive, reserve or take, interest in excess of the Highest Lawful Rate, and during any such period the interest payable hereunder shall be computed on the basis of the Highest Lawful Rate. As used herein, "Highest Lawful Rate" means the maximum non-usurious rate of interest, as in effect from time to time, which may be charged, contracted for, reserved, received or collected by the Corporation in connection with this Note under applicable law.

2. Principal. The entire principal balance of this Note, together with all accrued and unpaid interest, shall become due and payable in one lump sum on March 17, 2005.

3. Payment. All payments of principal and interest on the Loan shall be made without offset or deduction and shall be made in immediately available lawful tender of the United States and shall be applied first to the payment of all accrued and unpaid interest and then to the payment of principal. Prepayment of the principal balance of this Note, together with all accrued and unpaid interest, may be made in whole or in part at any time without penalty. Whenever any payment hereunder shall be stated to be due, or whenever any interest payment date or any other date specified hereunder would otherwise occur, on a day other than a Business Day (as defined below), then such payment shall be made, and such interest payment date or other date shall occur, on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest hereunder. As used herein, "Business Day" means a day (i) other than Saturday or Sunday, and (ii) on which commercial banks are open for business in San Francisco, California.

4. Representations and Warranties. The Maker represents and warrants to the Corporation that this Note does not contravene any contractual or judicial restriction binding on or affecting the Maker and that this Note is the legal, valid and binding obligation of the Maker enforceable against him in accordance with its terms.

5. Notice. The Maker agrees to notify the Corporation of the incurrence of any other indebtedness secured by the Collateral (as defined below) prior to the incurrence thereof.

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6. <u>Events of Acceleration</u>. The entire unpaid principal balance of this Note, together with all accrued and unpaid interest, shall become immediately due and payable prior to the specified due date of this Note upon the occurrence of one or more of the following events:

a. the failure to make any payment of principal, interest or any other amount payable hereunder when due under this Note or the breach of any other condition, obligation or covenant under this Note;

b. the breach of any representation or covenant under the Deed of Trust (as defined below);

c. the filing of a petition by or against the Maker under any provision of the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time, or under any similar law relating to bankruptcy, insolvency or other relief for debtors and the continuation of such petition without dismissal for a period of thirty (30) days or more; or appointment of a receiver, trustee, custodian or liquidator of or for all or any part of the assets or property of the Maker; or the insolvency of the Maker; or the making of a general assignment for the benefit of creditors by the Maker;

d. The Maker's death or incapacity;

e. any of the documents relating to the Collateral after delivery thereof shall for any reason be revoked or invalidated, or otherwise cease to be in full force and effect, or the Maker or any other person shall contest in any manner the validity or enforceability thereof, or the Maker or any other person shall deny that it has any further liability or obligation thereunder; or any of the documents relating to the Collateral for any reason, except to the extent permitted by the terms thereof, shall cease to create a valid and perfected first priority lien in any of the Collateral purported to be covered thereby;

f. the incurrence by the Maker of any other indebtedness secured by the Collateral which has not been consented to by the Corporation;

g. the expiration of the two (2)-month period following the date the Maker ceases for any reason to remain in the Corporation's employ;

h. an acquisition of the Corporation (whether by merger or acquisition of all or substantially all of the Corporation's assets or outstanding voting stock) for consideration payable in cash or freely-tradable securities; provided, however, that if the Pooling of Interest Method, as described in Accounting Principles Board Opinion No. 16, is used to account for the acquisition for financial reporting purposes, acceleration shall not occur prior to the end of the

sixty (60)-day period immediately following the end of the applicable restriction period required under Accounting Series Release Numbers 130 and 135; or

i. the occurrence of any event of default under the Deed of Trust securing this Note or any obligation secured thereby.

7. <u>Special Acceleration Event</u>. In the event that the Maker sells any shares of the common stock of the Corporation, the unpaid principal balance of this Note shall become immediately due and payable to the extent of one hundred percent (100%) of the after-tax proceeds realized upon such sale, and the Maker shall promptly deliver those after-tax proceeds to the Company to the extent necessary to satisfy the accelerated balance of this Note.

8. <u>Late Fee; Default</u>.

a. If any payment hereunder is not paid on or before the fifth (5th) business day of the month during which any such payment first became due and payable, Maker shall pay to Corporation a reasonable late or administrative charge in the amount of five percent (5%) of the amount so unpaid.

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b. Upon and after the occurrence of a default hereunder or any other agreement or instrument evidencing, governing or securing this Loan (an "Event of Default"), the Loan shall bear interest, payable upon demand, at the lessor of twelve percent (12%) or the maximum rate allowed by law (the "Default Rate").

c. If any interest payment hereunder is not paid on of before the fifth (5th) business day of the month during which such payment first became due and payable, any interest so unpaid shall bear interest from the first day of the month during which such payment first became due and payable until paid at the Default Rate. Interest on the amount of interest so unpaid shall be compounded monthly and shall be payable upon demand.

d. Maker and Corporation agree that the actual damages and costs sustained by Corporation due to the failure to make timely payments would be extremely difficult to measure and that the charges specified herein represent a reasonably estimate by Maker and Corporation of a fair average compensation for such damages and costs. Such charges shall be paid by Maker without prejudice to the right of Corporation to collect any other amounts provided to be paid under this Note or any other agreement or, with respect to late payments, to declare an Event of Default.

9. Employment. For purposes of applying the provisions of this Note, the Maker shall be considered to remain in the Corporation's employ for so long as the Maker renders services as a full-time employee of the Corporation, any successor entity or one or more of the Corporation's fifty percent (50%)-or-more owned (directly or indirectly) subsidiaries.

10. Use of Proceeds; Security. The proceeds of the loan evidenced by this Note shall be applied solely to the payment of the purchase price of Maker's principal residence in the San Francisco Bay Area. The obligations of Maker under this Note shall be secured by a mortgage security interest in such home (the "Collateral"), which security interest shall be more

specifically described by a deed of trust on such home to be executed by the Maker in favor of the Corporation immediately upon completion of the purchase of such home (the "Deed of Trust"), in substantially the same form as the deed of trust attached hereto as Exhibit A. The Maker shall remain personally liable for payment of this Note, and any other assets of the Maker, in addition to the Collateral, may be applied to the satisfaction of the Maker's obligations hereunder.

11. Collection. The Maker agrees to pay on demand all the losses, costs, and expenses (including, without limitation, attorneys' fees and disbursements) which the Corporation incurs in connection with enforcement or attempted enforcement of this Note, or the protection or preservation of the Corporation's rights under this Note, whether by judicial proceedings or otherwise. Such costs and expenses include, without limitation, those incurred in connection with any workout or refinancing, or any bankruptcy, insolvency, liquidation or similar proceedings.

12. Waiver. A waiver of any term of this Note, the Deed of Trust or of any of the obligations secured thereby must be made in writing and signed by a duly-authorized officer of the Corporation and any such waiver shall be limited to its express terms. No delay by the Corporation in acting with respect to the terms of this Note or the Deed of Trust shall constitute a waiver of any breach, default, or failure of a condition under this Note, the Deed of Trust or the obligations secured thereby. No single or partial exercise of any power under this Note shall preclude any other or further exercise of such power or exercise of any other power. The Maker waives presentment, demand, notice of dishonor, notice of default or delinquency, notice of acceleration, notice of protest and nonpayment, notice of costs, expenses or losses and interest thereon, notice of interest on interest and diligence in taking any action to collect any sums owing under this Note or in proceeding against any of the rights or interests in or to properties securing payment of this Note. The Maker agrees to make all payments under this Note without set-off of deduction and regardless of any counterclaim or defense.

13. Conflicting Agreements. In the event of any inconsistencies

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between the terms of this Note and the terms of any other document related to the loan evidenced by the Note, the terms of this Note shall prevail.

14. Governing Law. This Note shall be construed in accordance with the laws of the State of California. This Note shall be binding on the Maker and his successors, assigns, personal representatives, heirs, and legatees, and shall be binding upon and inure to the benefit of the Corporation, any future holder of this Note and their respective successors and assigns. The Maker may not assign or transfer this Note or any of his obligations hereunder without the Corporation's prior written consent.

15. Time of Essence. Time is of the essence with respect to every provision hereof.

/s/ Theodore J. Theophilos

Theodore J. Theophilos

EXHIBIT A

DEED OF TRUST

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

NAME: Brobeck, Phleger & Harrison LLP
ADDRESS: One Market
Spear Street Tower
San Francisco, CA 94105
Attn:

SPACE ABOVE THIS LINE FOR RECORDER'S USE

DEED OF TRUST WITH ASSIGNMENT OF RENTS

THIS DEED OF TRUST WITH ASSIGNMENT OF RENTS (this "Deed of Trust") is made as of this 17 day of March, 2000, by Theodore J. Theophilos and Anne A. Theophilos, husband and wife (collectively, "Trustor"), whose address is 510 Eucalyptus Avenue, Hillsborough, CA 94010, to CHICAGO TITLE COMPANY, a California corporation ("Trustee"), for the benefit of E*TRADE GROUP, INC., a Delaware corporation ("Beneficiary").

Trustor irrevocably grants, transfers and assigns to Trustee in trust, with power of sale that certain property located at 510 Eucalyptus Avenue, Hillsborough, San Mateo County, California, more particularly described in Exhibit A attached hereto, together with all improvements thereon, rights appurtenant thereto and the rents, issues and profits thereof (collectively, the "Property"), subject, however, to the right, power and authority hereinafter given to and conferred upon Beneficiary to collect and apply such rents, issues and profits, for the purpose of securing: (i) payment of the sum of Four Million Dollars ($4,000,000.00) with interest thereon according to the terms of that certain Note Secured by Deed of Trust dated as of March 17, 2000 ("Note") made by Trustor, payable to the order of Beneficiary, and extensions or renewals thereof; (ii) the performance of each agreement of Trustor incorporated by reference or contained herein or reciting it is so secured; and (iii) payment of additional sums and interest thereon which may hereafter be loaned to Trustor, or his or her successors or assigns, when evidenced by a promissory note or notes reciting that they are secured by this Deed of Trust. The Property and any and all other collateral pledged as security to Beneficiary are collectively referred to herein as the "Collateral."

A. To protect the security of this Deed of Trust, and with respect to the Property, Trustor agrees:

(1) To keep the Property in good condition and repair; not to remove

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or demolish any building thereon; to complete or restore promptly and in good and workmanlike manner any building which may be constructed, damaged or destroyed thereon and to pay when

due all claims for labor performed and materials furnished therefor; to comply with all laws affecting the Property or requiring any alterations or improvements to be made thereon; not to commit or permit waste thereof; not to commit, suffer or permit any act upon the Property in violation of law; to cultivate, irrigate, fertilize, fumigate, prune and do all other acts which from the character or use of the Property may be reasonably necessary, the specific enumerations herein not excluding the general.

(2) To provide maintain and deliver to Beneficiary insurance policies satisfactory to and with loss payable to Beneficiary. The amount collected under any earthquake, fire or other insurance policy may be applied by Beneficiary upon any indebtedness secured hereby and in such order as Beneficiary may determine, or at option of Beneficiary the entire amount so collected or any part thereof may be released to Trustor. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to the Note or otherwise.

(3) To appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; and to pay all costs and expenses, including cost of evidence of title and attorney's fees in a reasonable sum, in any action or proceeding in which Beneficiary or Trustee may appear, and in any suit brought by Beneficiary or Trustee to foreclose this Deed of Trust.

(4) To pay, at least ten days before delinquency all taxes and assessments affecting the Property, including assessments on appurtenant water stock; and to pay, when due, all encumbrances, charges and liens, with interest, on the Property or any part thereof, which appear to be prior or superior hereto and all costs, fees and expenses incurred by Beneficiary or Trustee in connection with this Deed of Trust.

Should Trustor fail to make any payment or to do any act as herein provided, then Beneficiary or Trustee, but without obligation so to do and without notice to or demand upon Trustor and without releasing Trustor from any obligation hereof, may: make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof, Beneficiary or Trustee being authorized to enter upon the Property for such purposes; appear in and defend any action or proceeding purporting to affect the security hereof or the rights or powers of Beneficiary or Trustee; pay, purchase, contest or compromise any encumbrance, charge, or lien which in the judgment of either appears to be prior or superior hereto and, in exercising any such powers, pay necessary expenses, employ counsel and pay his or her reasonable fees.

(5) To pay immediately and without demand all sums so expended by Beneficiary or Trustee, with interest from date of expenditure at the amount then applicable under the Note, and to pay for any statement provided for by law in effect at the date hereof regarding the obligation secured hereby, any amount demanded by Beneficiary or Trustee not to exceed the maximum allowed by law at the time when said statement is demanded.

B. It is further agreed:

(1) That any award of damages in connection with any condemnation for public use of or injury to the Property or any part thereof is hereby assigned and shall be paid to Beneficiary who may apply or release such moneys received in the same manner and with the same effect as above provided for disposition of proceeds of insurance.

(2) That by accepting payment of any sum secured hereby after its due date, Beneficiary does not waive its right either to require prompt payment when due of all other sums so secured or to declare default for failure so to pay.

(3) That at any time or from time to time, without liability therefor and without notice, upon written request of Beneficiary and presentation of this Deed of Trust and the Note for endorsement, and without affecting the personal liability of any person for payment of the indebtedness secured hereby,

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Beneficiary or Trustee may: reconvey any part of the Property, consent to the making of any map or plat thereof, join in granting any easement thereon, or join in any extension agreement or any agreement subordinating the lien or charge hereof.

(4) That upon written request of Beneficiary stating that all sums secured hereby have been paid, and upon surrender of this Deed of Trust and the Note to Trustee for cancellation and retention or other disposition as Trustee in its sole discretion may choose and upon payment of its fees, Trustee shall reconvey, without warranty, the Property then held hereunder. The Grantee in such reconveyance may be described as "the person or persons legally entitled thereto."

(5) That as additional security, Trustor hereby gives to and confers upon Beneficiary the right, power and authority, during the continuance of these trusts to collect the rents, issues and profits of the Property, reserving unto Trustor the right, prior to any default by Trustor in payment of any indebtedness secured hereby or in performance of any agreement hereunder or under the Note, to collect and retain such rents, issues and profits as they become due and payable. Upon any such default, Beneficiary may at any time without notice, either in person, by agent, or by a receiver to be appointed by a court, and without regard to the adequacy of any security for the indebtedness hereby secured, enter upon and take possession of the Property or any part thereof, in its own name sue for or otherwise collect such rents, issues, and profits, including those past due and unpaid, and apply the same, less costs and expenses of operation and collection, including reasonable attorneys' fees, upon any indebtedness secured hereby, and in such order as Beneficiary may determine. The entering upon and taking possession of the Property, the collection of such rents, issues and profits and the application thereof as aforesaid, shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

(6) That upon default by Trustor in the payment of any indebtedness secured hereby or in performance of any agreement hereunder, or upon the occurrence of any Event of Acceleration or any other default by Trustor in the payment or performance of any obligation under the Note, Beneficiary may declare all sums secured hereby immediately due and payable by delivery to Trustee of written declaration of default and demand for sale and of written notice of default and of election to cause the Property to be sold, which notice Trustee shall cause to be

filed for record. Beneficiary also shall deposit with Trustee this Deed of Trust, the Note and all documents evidencing expenditures secured hereby.

After the lapse of such time as may then be required by law following the recordation of said notice of default, and notice of sale having been given as then required by law, Trustee, without demand on Trustor, shall sell the Property at the time and place fixed by it in said notice for sale, either as a whole or in separate parcels, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States, payable at the time of sale. Trustee may postpone the sale of all or any portion of the Property by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement at the time fixed by the preceding postponement. Trustee shall deliver to such purchaser its deed conveying the property so sold, but without any covenant or warranty, express or implied. The recitals in such deed of any matters of facts shall be conclusive proof of the truthfulness thereof. Any person, including Trustor, Trustee, or Beneficiary as hereinafter defined, may purchase at such sale.

After deducting all costs, fees and expenses of Trustee and of this trust, including cost of evidence of title in connection with sale, Trustee shall apply the proceeds of sale to payment of (in the following order of priority): all sums owing under the terms hereof or under the Note, not then repaid, with accrued interest at the amount allowed by law in effect at the date hereof; all other sums then secured hereby; and the remainder, if any, to the person or persons legally entitled thereto.

(7) Beneficiary or any successor in ownership of any indebtedness secured hereby may, from time to time, by instrument in writing, substitute a successor or successors to any Trustee named herein or acting hereunder, which instrument, executed by Beneficiary and duly acknowledged and recorded in the

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office of the recorder of the county or counties where the Property is situated, shall be conclusive proof of proper substitution of such successor Trustee or Trustees, who shall, without conveyance from Trustee's predecessor, succeed to all its title, estate, rights, powers and duties. Said instrument must contain the name of the original Trustor, Trustee and Beneficiary hereunder, the book and page where this Deed of Trust is recorded and the name and address of the new Trustee.

(8) This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors, and assigns. The term "Beneficiary" shall mean the owner and holder, including pledgees, of the Note secured hereby, whether or not named as Beneficiary herein. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or the neuter, and the singular number includes the plural.

(9) Trustee accepts this trust when this Deed of Trust, duly executed and acknowledged, is made a public record as provided by law. Trustee is not obligated to notify any party hereto of pending sale under any other Deed of Trust or of any action or proceeding in which Trustor, Beneficiary or Trustee shall be a party unless brought by Trustee.

(10) Beneficiary may charge for a statement regarding the obligation secured hereby, provided the charge thereof does not exceed the maximum allowed by law.

(11) The undersigned Trustor, requests that a copy of any notice of default and any notice of sale hereunder be mailed to him or her at his or her address hereinbefore set forth.

(12) This Deed of Trust is further subject to the terms and conditions set forth in Addendum to this Deed of Trust attached hereto and incorporated herein by this reference.

(13) This Deed of Trust shall be governed by the laws of the state of California and all applicable federal laws.

(14) Any married person who executes this Deed of Trust as a Trustor and who is obligated under the Note or any other instrument relating thereto or hereto agrees that any money judgment which Beneficiary or Trustee obtains pursuant to the terms of this Deed of Trust or any other obligation of that married person secured by this Deed of Trust may be collected by execution upon that person's separate property and any community property of which that person is a manager.

IN WITNESS WHEREOF, Trustor has executed this Deed of Trust effective as of the date first set forth above.

/s/ Theodore J. Theophilos

Theodore J. Theophilos

/s/ Anne A. Theophilos

Anne A. Theophilos

STATE OF CALIFORNIA)
COUNTY OF SAN MATEO)

On _______________, 2000 before me, _____________________, Notary Public, personally appeared _____________, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal. (SEAL)

Signature of Notary

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STATE OF CALIFORNIA)
COUNTY OF SAN MATEO)

On _______________, 2000 before me, _____________________, Notary Public, personally appeared ______________, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal. (SEAL)

Signature of Notary

EXHIBIT A

ADDENDUM

THIS ADDENDUM is attached to, and made a part of, that certain Deed of Trust With Assignment of Rents (the "Deed of Trust") dated March 17, 2000 executed by Theodore J. Theophilos and Anne A. Theophilos, as Trustor, to CHICAGO TITLE COMPANY, a California corporation, as Trustee, for the benefit and security of E*TRADE GROUP, INC., a Delaware corporation, as Beneficiary. Capitalized terms used herein and not otherwise defined herein shall have the same meaning as in the Deed of Trust.

In addition to the terms and conditions set forth in the Deed of Trust, the following provisions are hereby incorporated as if fully set forth therein.

1. Due on Sale or Encumbrance. If Trustor shall convey or alienate the Property or any part thereof or interest therein, or shall be divested of its title to the Property in any manner, whether voluntary or involuntary, any indebtedness or obligation secured by the Deed of Trust, irrespective of the maturity date expressed in the Note, shall become immediately due and payable at the option of Beneficiary, without demand or notice.

2. Hazardous Materials. Trustor represents and warrants that, to the best of its knowledge, no hazardous materials (which shall mean any material or substance that, whether by its nature or use, is now or hereafter defined as a hazardous waste, hazardous substance, pollutant or contaminant under any environmental laws or regulations or which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous) are located at, on, in, under or about the Property and that the Property is in full compliance with all such environmental laws and regulations. Trustor shall comply in all respects with all environmental laws and regulations and will not generate, release, store, handle, process, dispose of or otherwise use any hazardous materials on or about the Property. Trustor shall defend, indemnify and hold harmless Beneficiary and its officers, directors and shareholders from and against any and all claims, demands, penalties, causes of actions, fines, liabilities, settlements, damages, costs or expenses of whatever kind or nature, known or unknown, foreseen or unforeseen, contingent or otherwise arising out of, or in any way related to (i) any breach by Trustor of the provisions of this paragraph, (ii) the release, disposal, spillage, discharge, emission, leakage, generation, release or threatened release of any hazardous materials in, on, under or about the Property, (iii) any personal injury arising out of or related thereto or (iv) any violation of any such environmental laws or regulations. To the extent applicable, Beneficiary shall have all the rights and remedies under California Code of Civil Procedure Sections 564(c) and 726.5 and California Civil Code Section 2929.5.

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3. Events of Default. In addition to the defaults set forth in the Deed of Trust (which shall be deemed "Events of Acceleration" for purposes of the Note), each of the following events shall also constitute an Event of Default:

a. Trustor shall become insolvent or generally shall not be paying its debts as they become due, as defined in the Bankruptcy Reform Act, Title 11 of the United States Code, as amended from time to time (the "Bankruptcy Code") or shall file a voluntary petition in bankruptcy seeking to effect a plan or other arrangement with creditors or seek any

other relief under the Bankruptcy Code or under any other state or federal law relating to bankruptcy or other relief for debtors;

b. Any court or similar tribunal shall enter a decree or order appointing a receiver, trustee, assignee in bankruptcy or insolvency of Trustor or of the Property or shall enter a decree or order for relief in any involuntary case under the Bankruptcy Code; or

c. The occurrence of any breach, default or failure under any other deed of trust, mortgage or other security agreement or interest encumbering the Property.

d. The failure of Trustor to pay any principal or interest evidenced by that certain Note Secured by Deed of Trust (the "Note") of even date herewith from Trustor to Beneficiary, within five (5) days of the date so provided for therein;

e. The failure by Trustor to perform or comply with any other material obligation, covenant or condition contained in this Deed of Trust within ten (10) days following written notice from Beneficiary of such failure; or

f. If any hazardous materials are found in, on, under or about the Property, or if Trustor becomes subject to any proceeding or investigation pertaining to the release by Trustor or any other person of any hazardous materials into the environment or to any violation of any environmental laws and Trustor fails to cure the same within such time as may be provided by applicable law.

"Trustor"

/s/ Theodore J. Theophilos

Theodore J. Theophilos

/s/ Anne A. Theophilos

Anne A. Theophilos

STATE OF CALIFORNIA)
COUNTY OF SAN MATEO)

On _______________, 2000 before me, _____________________, Notary Public, personally appeared ___________, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in her authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal. (SEAL)

Signature of Notary

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STATE OF CALIFORNIA)
COUNTY OF SAN MATEO)

On _______________, 2000 before me, ______________________, Notary Public, personally appeared ______________, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal. (SEAL)

Signature of Notary

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EXHIBIT 10.8

E*TRADE GROUP, INC.

AMENDMENT TO NOTE SECURED BY DEED OF TRUST

The Note Secured by Deed of Trust dated March 17, 2000 between E*TRADE Group, Inc. and Theodore J. Theophilos (the "Note") is hereby amended, effective ___________ as follows:

1. Section 6 (g) is hereby amended in its entirety to read as follows:

g. the expiration of the two (2)-month period following the date the Maker ceases for any reason to remain in the Corporation's employ, provided, however that if Maker ceases to remain in the Corporation's employ due to an Involuntary Termination, such acceleration shall occur one (1) year following the Involuntary Termination;

2. For purposes of the Note an "Involuntary Termination" shall mean the termination of Maker's Service by reason of: (i) the Maker's involuntary dismissal or discharge by the Company for reasons other than for Misconduct, or (ii) the Maker's voluntary resignation following (A) a change in Maker's position with the Company (or Parent or Subsidiary employing Maker)which materially reduces Maker's duties and responsibilities, (B) a reduction in Maker's level of compensation (including base salary, fringe benefits and target bonuses under any corporate-performance based incentive programs) by more than fifteen percent (15%) or (C) a relocation of Maker's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Company without Maker's consent. Misconduct shall mean the commission of any act of fraud, embezzlement or dishonesty by the Maker, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Company or any other intentional misconduct by such person adversely affecting the business or affairs of the Company in a material manner.

3. Except as modified by this Amendment, all the terms and provisions of the Note as in effect on the date hereof shall continue in full force and effect.

E*TRADE GROUP, INC.

by: /s/ Christos M. Cotsakos
----

title: Chairman of the Board and Chief Executive Officer

/s/ Theodore J. Theophilos

THEODORE J. THEOPHILOS

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
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QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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