FORM 10-Q

E TRADE FINANCIAL CORP - ETFC

Filed: February 17, 1998 (period: December 31, 1997)

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

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 DECEMBER 31, 1997

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)

FOUR EMBARCADERO PLACE, 2400 GENG ROAD, PALO ALTO, CA 94303
(Address of principal executive offices and zip code)
Registrant's telephone number, including area code: (650) 842-2500

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 February 9, 1998, the number of shares outstanding of the registrant's common stock was 38,949,521.

E*TRADE GROUP, INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED DECEMBER 31, 1997

TABLE OF CONTENTS

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

FORWARD-LOOKING STATEMENTS: In addition to the historical information contained throughout this quarterly report, there are forward-looking statements that reflect management's expectations for the future. These statements relate to a variety of matters including the Company's strategy, sources of liquidity and capital expenditures. Many factors could cause actual results to differ materially from these statements. These factors include, but are not limited to: the timing of introductions of enhancements to online financial services and products by the Company or its competitors; market acceptance of online financial services and products; the pace of development of the market for online commerce; changes in transaction volume on the securities markets; trends in the securities markets; domestic and international regulation of the brokerage industry; changes in pricing policies by the Company or its 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 sales; changes in the level of operating expenses to support projected growth; and general economic conditions. For a description of certain of these and other factors that may cause actual results to so differ, reference is made hereby to the Company's Annual Report on Form 10-K and other documents filed by the Company from time to time with the Securities and Exchange Commission. The Company disclaims any obligation to update its forward-looking statements.

Due to the foregoing factors, quarterly revenues and operating results are difficult to forecast, and the Company believes that period-to-period comparisons of its operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance. It is likely that the Company's future quarterly operating results from time to time will not meet the expectations of securities analysts or investors, which may have an adverse effect on the market price of the Company's Common Stock.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

E*TRADE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,	
	1997	1996
Revenues:		
Transaction revenues	$ 37,684	$ 20,372
Interest, net of interest expense (A)	12,036	3,854
International	27	--
Computer services and other	1,383	797
Net revenues	51,130	25,023
Cost of services	22,747	12,425
Operating expenses:		
Selling and marketing	8,100	3,216
Technology development	4,995	2,320
Acquired in-process research and development	2,756	--
General and administrative	4,765	3,174
Total operating expenses	20,616	8,710
Total cost of services and operating expenses	43,363	21,135
Pre-tax income	7,767	3,888
Income tax expense	2,853	1,628
Net income	$ 4,914	$ 2,260
Basic net income per share	$ 0.13	$ 0.08
Diluted net income per share	$ 0.12	$ 0.07
Shares used in computation of basic net income per share	38,719	29,500
Shares used in computation of diluted net income per share	41,766	33,374

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(A) Interest is presented net of interest expense. Interest expense for the three months ended December 31, 1997 and 1996 was $8,712 and $2,297, respectively.

See notes to consolidated financial statements.

E*TRADE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	DECEMBER 31, 1997	SEPTEMBER 30, 1997
	(Unaudited)	
ASSETS		
Current assets:		
Cash and equivalents	$ 7,861	$ 21,814
Cash and investments required to be segregated under Federal or other regulations	58,000	15,001
Investment securities	193,446	191,398
Brokerage receivables--net	877,664	724,365
Other assets	5,325	4,744
Total current assets	1,142,296	957,322
Property and equipment--net	20,723	18,802

Other assets	14,858	13,779
Total assets	$1,177,877	$989,903
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Brokerage payables	$ 860,377	$681,106
Bank loan payable	5,750	9,400
Accounts payable, accrued liabilities and other	24,945	18,122
Total liabilities	891,072	708,628
Contingencies (Note 6)		
Stockholders' equity:		
Common stock, $.01 par: shares authorized, 150,000,000; shares issued and outstanding: December 1997, 38,810,308; September 1997, 38,657,328	388	387
Additional paid-in capital	267,269	266,712
Retained earnings	19,090	14,176
Unrealized gain on available-for-sale securities, net of tax	58	--
Total stockholders' equity	286,805	281,275
Total liabilities and stockholders' equity	$1,177,877	$989,903

See notes to consolidated financial statements.

E*TRADE GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,914	$ 2,260
Non-cash items included in net income:		
Deferred income taxes	(1,105)	571
Depreciation and amortization	1,570	533
Income from equity investment	(1,086)	(231)
Net effect of changes in broker-related assets and liabilities:		
Cash and investments required to be segregated under Federal or other regulations	(42,999)	(11,500)
Brokerage receivables	(153,299)	(58,371)
Brokerage payables	179,271	63,115
Bank loan payable	(3,650)	--
Other changes, net:		
Other assets	1,046	(57)
Accounts payable, accrued liabilities and other	7,754	2,996
Net cash used in operating activities	(7,584)	(684)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,128)	(937)
Internally developed software	(421)	--
Purchase of investment securities	(460,610)	(198,711)
Sale/maturity of investment securities	458,120	202,256

Related party transactions	(144)	(3,147)
Acquisition of net assets of OptionsLink (net of $2,756 in-process R&D)	(744)	--
Distributions received from equity investments	--	107
Net cash used in investing activities	(6,927)	(432)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Costs from initial public offering	--	(102)
Proceeds from exercise of stock options	558	1
Repayment of capital leases	--	(10)
Net cash provided by (used in) financing activities	558	(111)
DECREASE IN CASH AND EQUIVALENTS	(13,953)	(1,227)
CASH AND EQUIVALENTS--Beginning of period	21,814	14,641
CASH AND EQUIVALENTS--End of period	$ 7,861	$ 13,414
SUPPLEMENTAL DISCLOSURES:		
Cash paid for interest	$ 7,448	$ 2,397
Cash paid for income taxes	$ --	$ --
Non-cash activities:		
Unrealized gain on available-for-sale securities, net of tax	$ 58	$ --

See notes to consolidated financial statements.

E*TRADE GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1.--GENERAL

The accompanying unaudited consolidated financial statements include E*TRADE Group, Inc. and its subsidiaries (collectively, the "Company"). E*TRADE Group, Inc. is a holding company engaged, through its subsidiaries, in securities brokerage and related investment services. E*TRADE Group Inc.'s principal operating subsidiary, E*TRADE Securities, Inc. ("E*TRADE Securities") is a securities broker-dealer.

These 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 adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles. All adjustments were of a normal recurring nature. All material intercompany balances and transactions have been eliminated. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 1997 Annual Report to Stockholders on Form 10-K for the fiscal year ended September 30, 1997.

Certain items in these financial statements have been reclassified to conform to the current period presentation.

NOTE 2.--BROKERAGE RECEIVABLES AND PAYABLES--NET

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

	DECEMBER 31, 1997	SEPTEMBER 30, 1997
Receivable from customers and non-customers (less allowance for doubtful accounts of $234 at December		

31, 1997 and $435 at September 30, 1997)	$797,478	$655,981
Receivable from brokers, dealers and clearing organizations:		
Net settlement and deposits with clearing organizations	35,390	37,198
Deposits paid for securities borrowed	38,711	25,584
Securities failed to deliver	2,289	1,011
Other	3,796	4,591
Total brokerage receivables--net	$877,664	$724,365
Payable to customers and non-customers	$226,245	$279,348
Payable to brokers, dealers and clearing organizations:		
Deposits received for securities loaned	629,539	398,007
Securities failed to receive	1,740	1,304
Other	2,853	2,447
Total brokerage payables	$860,377	$681,106

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. Credit extended with respect to margin accounts was $821 million at December 31, 1997 and $678 million at September 30, 1997. 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 funds pending completion of securities transactions. The Company pays interest on certain customer and non-customer credit balances.

NOTE 3.--ACQUISITION

In December 1997, the Company completed its acquisition of the OptionsLink Division of Hambrecht & Quist for cash of approximately $3,500,000. The purchase price exceeded the fair value of net assets acquired by approximately $3 million, of which $2,756,000 was allocated to in-process research and development and written-off in the period.

NOTE 4.--NET INCOME PER SHARE

The Company has adopted SFAS No. 128, Earnings per Share. SFAS No. 128 requires a dual presentation of basic and diluted EPS. Basic EPS excludes dilution and is computed by dividing net income by the weighted average common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Prior periods have been restated to conform with SFAS No. 128.

	THREE MONTHS ENDED DECEMBER 31,	
	1997	1996
Shares used in computation (in thousands):		
Weighted average common shares outstanding used in computation of basic net income per share	38,719	29,500
Dilutive effect of stock options	3,047	3,874
Shares used in computation of diluted net income per share	41,766	33,374

Options to purchase 571,669 and 86,000 shares of common stock at prices ranging from $28.25 to $46.06 and $11.25 to $13.19 were outstanding as of

December 31, 1997 and 1996, respectively, but not included in the computation of diluted net income per share. These options were excluded because the options' exercise price was greater than the average market price of the common stock for the three months ended December 31, 1997 and 1996, and therefore would be anti-dilutive for purposes of this calculation.

NOTE 5.--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 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 2 percent of aggregate debit balances arising from customer transactions, as defined. At December 31, 1997, E*TRADE Securities had net capital of $54,314,000 (6.7% of aggregate debit balances), which was $37,992,000 in excess of its required net capital of $16,322,000. 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 requirement.

NOTE 6.--CONTINGENCIES

The Company is a defendant in civil actions arising from the normal course of business. In the opinion of management, these actions are expected to be resolved with no material effect on the Company's consolidated financial position or results of operations.

On November 21, 1997, a complaint was filed in the Superior Court of California, County of Santa Clara, by Larry R. Cooper, purportedly on behalf of himself and a class of other similarly situated individuals, and also as a "private attorney general," seeking injunctive and other relief due to the Company's alleged false and deceptive advertising and other communications regarding the Company's commission rates and the

Company's ability to execute transactions in a timely manner. The complaint seeks injunctive relief enjoining alleged deceptive and unfair practices alleged in the complaint and unspecified compensatory and punitive damages, as well as attorney fees. This proceeding is at a very early stage and the Company is unable to speculate as to its ultimate outcome, however, management does not expect the outcome to have a material effect on its consolidated financial position or results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Revenues

Transaction revenues increased 85% to $37,684,000 for the first quarter of fiscal 1998, up from $20,372,000 for the same period in fiscal 1997. Transaction revenues consist of commission revenues and payments for order flow. Commission revenues for the first quarter of fiscal 1998 increased 123% to $30,893,000, up from $13,837,000 for the same period a year ago. Transactions for the first quarter of fiscal 1998 totaled 1,575,000 or an average of 24,606 transactions per day. This is an increase of 129% over the average daily transaction volume of 10,755 for the same period last year. Average commissions per transaction declined from $20.10 in the first quarter of fiscal 1997 to $19.62 in the first quarter of fiscal 1998 due to a change in product mix. Payments for order flow increased 4% to $6,791,000 in the first quarter of fiscal 1998, up from $6,535,000 for the same period in the prior year. This increase is less than the increase in the total volume of transactions due to the implementation of the new SEC order handling rules in January 1997.

Net interest revenues for the first quarter of fiscal 1998 increased 212% to $12,036,000 for the first quarter of fiscal 1998, up from $3,854,000 for the same period in fiscal 1997. This increase is a result of customer average margin debit balances increasing 294% to $815 million, customer average credit balances increasing 24% to $229 million and average money market fund balances increasing 142% to $1.13 billion compared to average balances in the first quarter of fiscal 1997.

International revenues of $27,000 for the first quarter of fiscal 1998 represent royalty fees from Versus Technologies, Inc. in Canada, which operates under the E*TRADE name.

Computer services and other revenues increased 74% to $1,383,000 for the first quarter of fiscal 1998, up from $797,000 for the comparable period in fiscal 1997. This increase is a result of increases in customer connect time charges, equity income from the investment in Roundtable Partners LLC, and broker-related fees for services.

Cost of Services

Total cost of services increased 83% to $22,747,000 for the first quarter of fiscal 1998, up from $12,425,000 for the comparable period in fiscal 1997. The increase results primarily from the higher volume of customer transactions processed by the Company.

Operating Expenses

Selling and marketing expenses increased 152% to $8,100,000 for the first quarter of fiscal 1998, up from $3,216,000 for the comparable period in fiscal 1997. This increase reflects the Company's increases in expenditures for advertising placements, creative development and collateral materials resulting from a variety of advertising campaigns directed at building a brand name recognition, growing customer base and market share, and maintaining customer retention rates.

Technology development costs increased 115% to $4,995,000 for the first quarter of fiscal 1998, up from $2,320,000 for the comparable period in fiscal 1997. The increased level of expenses 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.

The Company recorded a onetime charge of $2,756,000 for acquired in-process research and development, or $0.04 per share after tax, in connection with the Company's acquisition of OptionsLink, a division of Hambrecht & Quist.

General and administrative costs increased 50% to $4,765,000 for the first quarter of fiscal 1998, up from $3,174,000 for the comparable period in fiscal 1997. This increase is the result of increased costs associated with personnel additions and the development of administrative functions resulting from the overall growth in the Company.

Income Tax Expense

Income tax expense represents the provision for federal and state income taxes at an effective rate of 36.7% for the first quarter of fiscal 1998 and 41.9% for the comparable period in fiscal 1997.

Variability of Results

The Company expects to experience significant fluctuations in future quarterly operating results that may be caused by many factors. These factors include, but are not limited to: the timing of introductions of enhancements to online financial services and products by the Company or its competitors; market acceptance of online financial services and products; the pace of development of the market for online commerce; changes in transaction volume on the securities markets; domestic and international regulation of the brokerage industry; trends in the securities markets; changes in pricing policies by the Company or its competitors; changes in strategy; the success of or costs associated with acquisitions or other strategic relationships; changes in key personnel; seasonal trends; the extent of international expansion; the mix of international and domestic sales; changes in the level of operating expenses to support projected growth; and general economic conditions.

Due to the foregoing factors, quarterly revenues and operating results are difficult to forecast, and the Company believes that period-to-period comparisons of its operating results will not necessarily be meaningful and should not be relied upon as an indication of future performance. It is likely that the Company's future quarterly operating results from time to time will not meet the expectations of securities analysts or investors, which may have an adverse effect on the market price of the Company's Common Stock.

Liquidity and Capital Resources

The Company currently anticipates that its available cash resources and credit facilities 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 stockholders of the Company will be reduced, stockholders 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 $7,584,000 for the first quarter of fiscal 1998 compared with $684,000 for the comparable period in fiscal 1997. The increase in cash used in the first quarter of fiscal 1998 was primarily a result of increases in brokerage-related assets in excess of related liabilities of $20,677,000, offset by net income during the period, non-cash items included in net income and increases in accounts payable, accrued and other liabilities.

Cash used in investing activities was $6,927,000 for the first quarter of fiscal 1998 compared with $432,000 for the comparable period in fiscal 1997. The increase in cash used in the first quarter of fiscal 1998 was primarily a result of the acquisition of OptionsLink, a division of Hambrecht & Quist, and an increase in cash used for investments in property and equipment, and internally developed software. Additionally, the Company was a net purchaser of investment securities in the first quarter of fiscal 1998 by $2,490,000, compared with the first quarter of fiscal 1997 when the Company's sales and maturities of investment securities exceeded its purchases by $3,545,000.

Cash provided by financing activities was $558,000 for the first quarter of fiscal 1998 as a result of proceeds from the exercise of stock options, compared with cash used in financing activities of $111,000 for the first quarter of fiscal 1997, primarily as a result of costs from the initial public offering.

The Company expects that it will incur approximately $35 million of capital expenditures during the fiscal year ending September 30, 1998.

Year 2000 Compliance

The Company utilizes and is dependent upon data processing systems and software to conduct its business. The data processing systems and software include those developed and maintained by the Company's third-party data processing vendors and software which is run on in-house computer networks.

During the first quarter of fiscal 1998, the Company initiated a review and assessment of all hardware and software to confirm that it will function properly in the year 2000. With respect to internal systems, the results of that evaluation to date have not revealed any year 2000 issues that, in the Company's opinion, create a material risk of disruption of operations. With respect to outside vendors, those vendors which have been contacted have indicated that their hardware or software is or will be Year 2000 compliant in time frames that meet regulatory requirements. Evaluation of these issues is continuing and there can be no assurance that additional issues, not presently known to the Company, will not be discovered which could present a material risk of disruption to the Company's operations. In addition, the method of trading employed by the Company is heavily dependent on the integrity of electronic systems outside of the Company's control, such as online and Internet service providers, and third-party software such as Internet browsers. A failure of any such system in the trading process, even for a short time, could cause interruption to the Company's business.

Securities Industry

The securities industry is 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 non-compliance with applicable regulations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK -- Not applicable.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS--

On November 21, 1997, a complaint was filed in the Superior Court of California, County of Santa Clara, by Larry R. Cooper, purportedly on behalf of himself and a class of other similarly situated individuals, and also as a "private attorney general". The complaint alleges, among other things, that the Company's advertising, other communications and business practices regarding the Company's commission rates and its ability to timely execute transactions through its online brokerage services were false and deceptive. The complaint seeks injunctive relief enjoining the purported deceptive and unfair practices alleged in the complaint and also seeks unspecified compensatory and punitive damages, as well as attorney fees.

This proceeding is at a very early stage and the Company is unable to speculate as to its ultimate outcome. However, the Company believes it has meritorious defenses to the claims and intends to conduct vigorous defenses. An unfavorable outcome in any matters which 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 in the Company's results of operation.

From time to time the Company has been threatened with, or named as a defendant in, lawsuits 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 to 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 industry is 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 non-compliance with applicable regulations. In particular, in fiscal 1997, the Company failed to comply with applicable advertising restrictions in one international jurisdiction, and due to a clerical oversight failed to timely renew its registration as a broker-dealer in two states, Nebraska and Ohio. One of the state jurisdictions, Ohio, as a condition of renewing the Company's license as a broker-dealer in that jurisdiction, required the Company to offer customers resident in that state the ability to rescind (for up to 30 days) certain securities transactions effected through the Company during the period January 1, 1997 through April 15, 1997, the date the Company's license was renewed. For fiscal 1997, the Company recorded a one-time $4.3 million pre-tax charge against earnings in connection with this matter.

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS--

Use of Proceeds

On August 16, 1996, a Registration Statement on Form S-1 (No. 333-05525) was declared effective by the Securities and Exchange Commission, pursuant to which 5,026,550 shares of the Company's Common Stock were offered and sold for the account of the Company at a price of $10.50 per share, generating gross offering proceeds of $52,779,000 for the account of the Company. A further 675,450 shares of the Company's

Common Stock were offered and sold for the account of selling stockholders at a price of $10.50 per share, generating gross offering proceeds of $7,092,000 for the account of selling stockholders. Each share of Series A, Series B and Series C Preferred Stock was automatically converted into 60 shares of Common Stock upon the closing of the initial public offering. The managing underwriters were BancAmerica Robertson Stephens, Hambrecht & Quist LLC, and Deutsche Morgan Grenfell/C.J. Lawrence, Inc.

In connection with the offering, the Company incurred $3,695,000 in underwriting discounts and commissions, and $2,682,000 in other related expenses. The net proceeds of the offering, after deducting the foregoing expenses, were $46,402,000.

On August 20, 1997, a Registration Statement on Form S-1 (No. 333-31841) was declared effective by the Securities and Exchange Commission, pursuant to which 7,305,000 shares of the Company's Common Stock were offered and sold for the account of the Company at a price of $27.50 per share, generating gross offering proceeds of $200,888,000 for the account of the Company. A further 2,010,000 shares of the Company's Common Stock were offered and sold for the account of selling stockholders at a price of $27.50 per share, generating gross offering proceeds of $55,275,000 for the account of selling stockholders. The managing underwriters were BancAmerica Robertson Stephens, Hambrecht & Quist LLC, Deutsche Morgan Grenfell/C.J. Lawrence, Inc., NationsBanc Montgomery Securities, and E*TRADE Securities, Inc.

In connection with the offering, the Company incurred $10,044,000 in underwriting discounts and commissions, and $2,019,000 in other related expenses. The net proceeds of the offering, after deducting the foregoing expenses, were $188,825,000.

The Company has used a portion of the net proceeds of the two offerings as follows: (i) $12,126,000 for the purchase and installation of software, machinery and equipment, (ii) $3,599,000 for the construction of plant, building and facilities, (iii) $2,250,000 for the repayment of indebtedness, (iv) $3,147,000 for a relocation loan to an officer, (v) $2,293,000 for the purchase of equity investments, (vi) $2,000,000 for investment in KAP Group, LLC, (vii) $3,500,000 for the acquisition of OptionsLink, (viii) $3,861,000 for investment in new projects, technology and products to expand and complement the business, and (ix) $202,451,000 for investment in short-term, investment grade, interest bearing securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES -- Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS --

A special meeting of stockholders was held on December 30, 1997. The proposal to amend the Company's Certificate of Incorporation to increase the Company's authorized common stock from 50 million shares to 150 million shares was approved, as tabulated below.

	FOR	AGAINST OR WITHHELD	ABSTENTIONS
Votes.......................................	29,930,159	8,762,002	79,827

ITEM 5. OTHER INFORMATION -- None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit:

27.1 Financial Data Schedule.

(b) Form 8-K:

No reports on Form 8-K were filed during the three months ended December 31, 1997.

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: February 17, 1998

/s/ Christos M. Cotsakos

Christos M. Cotsakos,
President, Chief Executive Officer and Director (principal executive officer)

/s/ Stephen C. Richards

Stephen C. Richards,
Senior Vice President, Finance and Administration, Chief Financial Officer and Treasurer (principal financial and accounting officer)

<ARTICLE> BD
<LEGEND>
This schedule contains summary financial information extracted from the Consolidated Statements of Operations and Consolidated Balance Sheets of the Company's Quarterly Report on Form 10-Q for the period ended December 31, 1997, and is qualified in its entirety by reference to such financial statements.
</LEGEND>
<MULTIPLIER> 1,000

<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	SEP-30-1998
<PERIOD-START>	OCT-01-1997
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<CASH>	7,861
<RECEIVABLES>	838,953
<SECURITIES-RESALE>	0
<SECURITIES-BORROWED>	38,711
<INSTRUMENTS-OWNED>	197,508
<PP&E>	20,723
<TOTAL-ASSETS>	1,177,877
<SHORT-TERM>	30,695
<PAYABLES>	230,838
<REPOS-SOLD>	0
<SECURITIES-LOANED>	629,539
<INSTRUMENTS-SOLD>	0
<LONG-TERM>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	388
<OTHER-SE>	286,417
<TOTAL-LIABILITY-AND-EQUITY>	1,177,877
<TRADING-REVENUE>	0
<INTEREST-DIVIDENDS>	12,036
<COMMISSIONS>	37,684
<INVESTMENT-BANKING-REVENUES>	0
<FEE-REVENUE>	0
<INTEREST-EXPENSE>	8,712
<COMPENSATION>	0
<INCOME-PRETAX>	7,767
<INCOME-PRE-EXTRAORDINARY>	4,914
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	4,914
<EPS-PRIMARY>	0.13
<EPS-DILUTED>	0.12