MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the first quarter, 2004 Earnings Conference Call for E*Trade Financial Corporation. I have been asked to begin the call with following safe harbor statement. During this conference call the company will be sharing with you certain projections or other forward looking statements regarding future events or its future performance. E*Trade Financial cautions you there are certain factors including risks and uncertainties referred to the 10-K and 10-Q's and other reports are periodically files with the security and exchange commission could cause the company's actual results to differ materially from those indicated by its projections or forward-looking statements. In this call E*Trade Financial will discuss some non GAAP measures in talking about its performance and you can find the reconciliation of those measures to GAAP in the company's press release, which can be found on its website. This call is being taped. The recording is available by telephone beginning at 10:30 eastern time today, through 9:00 eastern time on April 30th. The call is also being webcast at www.etrade.com. No other tape recordings of this call or copies of the taping are authorized or may be relied upon. I'll now turn the call over to Mitchell Caplan, Chief Executive Officer of E*Trade Financial corporation, who is joined by Jarrett Lilien, President and Chief Operating Officer, and Rob Simmons, Chief Financial Officer. Mr. Caplan.

Mitchell Caplan, Chief Executive Officer

Thanks everybody for joining us this morning. As we enter 2004 we remain committed as an organization to one primary goal, creating value, value for our customers and value for our shareholders. We remain focused on using technology to create competitive and customer advantage. By adhering to this core tenant we have consistently delivered superior products and services to our customers and outstanding financial results to our shareholders. In the first quarter our business model proved itself again. We capitalized on the earnings leverage of our core transaction business while generating a growing base of recurring interest income. I am pleased to announce that for the first quarter of 2004 we produced GAAP earnings of 23 cents per share compared to 27 cents in the prior quarter, and 6 cents a year ago.

The four cent sequential decline in GAAP EPS was the net result of a four cent increase in operating segment results offset by an 8 cent reduction in nonoperating corporate items which was driven by the sale of fewer shares of our investment in Softbank Investment Corp. in the first quarter compared to the fourth quarter. In addition, income before other corporate items increased 23% in the first quarter to $117 million from $95 million in the fourth quarter of 2003. Our diversified model served us well through the market downturn in 2001 and 2002, allowing us to generate positive earnings while many of our industry peers experienced losses. As we successfully emerged from that challenging environment and went on in 2003 to generate the best results in the company's history, the strength and stability of our model has become increasingly apparent. This strength has recently been validated externally by the inclusion of E*Trade Financial in the S&P 500 index. Standard & Poor's seeks companies for its flagship index that represent leading companies in leading industries. We are extremely pleased to be a part of this highly respected index and by the recognition of the strength of our franchise. Yet, to truly create real customer and shareholder value we believe we that must deliver more than just a diversified suite of financial products and services. The real power of our model and the next chapter in our growth story lies within the opportunities of greater integration. Over the course of the past five years E*Trade Financial has completed a series of acquisitions in various aspects of our business. These acquisitions helped us build an operational structure housing multiple businesses with significant opportunities for leverage. While we made tremendous progress over the past year in consolidating many of these operations, we have only begun to realize the benefits of an integrated brokerage and bank model. In the third quarter of last year we implemented a Sweep Deposit Account, our initial step toward unleashing the inherent synergies and enhanced economics of our business integration strategy. Building on the success of this product, we are developing additional new and
innovative ways to generate greater earnings power as we achieve further integration. In the months ahead we will launch products and services such as an enhanced customer account for cash management and credit card aimed at the needs of our active and serious investors. Integration of brokerage and banking is what allows us to create these types of innovative products and generate deeper relationships with our most valuable customers.

There are also additional opportunities through further integration in our back office. We will continue to consolidate functions across brokerage, banking, consumer lending and mortgage operations, creating greater scale, improved profit margin and an enhanced customer experience. While the integration of our business provides unique growth opportunities for the company, disciplined capital allocation continues to be our foundation. We examine all opportunities with an expectation of achieving at least a 20% return on incremental capital deployed, whether through reinvesting in our retail or institutional businesses or through the capital markets in the form of stock or debt buy-backs, we will continue to pursue strategic opportunities that deliver the best risk-based returns for the company over the long-term.

In December of last year we announced that the company's Board of Directors approved a $100 million repurchase program that gave us the flexibility to buy back common stock, retire debt, or a combination of both. In the first quarter we used $50 million of the buy-back program to purchase common stock at a weighted average price of $13.31. We continue to see significant value in the stock, and expect to remain active in our buy-back program.

With the business now generating significant cash flow and free cash in excess of 700 million, we have tremendous flexibility in the opportunities for our capital to insure the accomplishment of our goal of creating value for our customers and our shareholders. I'd now like to turn the call over to Jarrett Lilien, President and Chief Operating Officer, for the details on our segment performance.

Jarrett Lilien, President & COO

Thanks, Mitch, starting with brokerage, we continue to focus on delivering the highest value offerings to our clients, and the results are showing as we continue to grow trades, margin debt, assets and accounts, generating positive momentum in all of the core drivers of our brokerage business. Retail investor activity increased for the fourth consecutive quarter, generating higher DARTs and margin debt balances. Total DARTs were 157,000 for the quarter, a 12 percent sequential increase and an 81% increase year-over-year. Retail DARTs also increased 12% sequentially, and 87% year over year, while professional grew also 12% sequentially and 71% year over year.

Within our retail segment we saw increased activity in products such as options, where we recently introduced enhanced trading functionality and improved pricing. In addition we experienced a strong return of our Main Street customer segment, which comprised a larger portion of our overall mix of retail volume in the quarter. This mix shift, plus continued growth from our international operations, helped average commission per trade increase to $11.53 from $11.18 in the prior quarter.

With rising trading activity levels, we also experienced continued growth in margin balances, quarter ending margin debt balances increased 22% sequentially, and 139% from the year ago period to $2.1 billion. In addition, we continued to experience greater stability in margin debt balances relative to the fluctuations we’ve seen in DART volumes, given the strength in margin debt, brokerage interest income is tracking beyond the high end of our expectations for the year, providing potential upside to our earnings forecast.

We will keep this overall brokerage momentum going by continuing to roll out industry-leading products and services with compelling value propositions. During the first quarter we received a 4.5
star rating from Barron’s with top honors among active trader platforms. Additionally Gomez has ranked us number one for active traders since 1999. Such accolades are indicative of the strength of our industry-leading platform and the result of our customer centric approach. Our customers seek high quality financial services through an integrated experience that combines the best in product, functionality, service and value. To that end we recently launched the industry's first two-second execution guarantee on S&P 500 stocks, and a new offering for the serious investor called priority E*Trade. Through priority E*Trade customers who trade more than three times per month or have greater than $50,000 in assets, get a compelling offering of industry-leading product and functionality, including a $12.99 commission rate on stock and options trades, priority service, and our no-fee IRA and 12b-1 rebate programs on mutual funds which are enjoyed by all of our customers.

Over the next several months we will add to this offering proprietary index funds with the lowest expense ratios among comparable funds in the industry, and reduced commission rates on exchange-traded funds. We view priority E*Trade as core to our asset gathering strategy in 2004, and an example of how we are able to leverage our cost efficient model to deliver greater value to investors.

As we continue to add to our value propositions, we will also focus on account growth. During the first quarter we saw our investment in marketing begin to pay off as we added 32,000 net new brokerage accounts. Our active retail customer base increased by 1% and reversed a 3/4 trend of net account attrition. In the quarter we increased brokerage related advertising and marketing by $13 million, largely focused on our asset gathering initiatives. In 2003 we spent just $12 million in brokerage marketing, while many of our competitors spent considerably more. Despite this disparity in marketing spent last year, we successfully gained market share of industry trades. We believe this dynamic speaks to the efficiency of our targeted marketing approach. As we strategically increase our marketing spend in 2004, we will continue with targeted marketing in both the active and serious investor segments, while opportunistically increasing or decreasing our commitments as market conditions warrant.

Turning over to the bank, we continue to integrate with our brokerage and we are ahead of plan in our spread widening initiatives, delivering a larger base of recurring interest income. Looking at the bigger picture, we are also ahead of plan in positioning the bank portfolio for a rising rate environment, while maintaining the flexibility to benefit in our mortgage business from any decline in interest rates, such as we experienced during the first quarter.

In terms of our spread widening initiatives, we exited the first quarter with a net interest spread of 201 basis points, achieving the spread target required to hit the high end of our guidance range a full quarter ahead of plan. Overall we improved average net interest spread to 185 basis points from 169 basis points in the fourth quarter. This improvement in spread was driven largely by the full quarter impact of the $1.4 billion of funds in the Sweep Deposit Account that moved to the bank from brokerage at the end of the fourth quarter.

Since we implemented the sweep program during the third quarter, bank spread has widened by a total of 50 basis points as a direct result of reducing funding costs, and lower deposit-related marketing expenses. The recurring economic benefit of the sweep product continues to highlight the advantage of our integrated brokerage and bank model. These results confirm our ability to generate a spread of 200 basis points in a low interest rate environment. However, if interest rates rise we expect to generate a larger portion of bank related earnings from recurring spread income. We have anticipated a rising rate environment and are prepared to capitalize as follows. On the asset side of the balance sheet our shift towards floating rate consumer finance loans minimizing our risk of being locked into fixed rate assets.

On the liability side of the balance sheet our transition towards Sweep balances gives us the ability to reprice our liabilities at a slower pace. In essence, the combination of our asset diversification
program and our sweep initiative will generate positive results in a rising rate environment, since yields in our asset portfolio will rise while the cost of our liabilities will lag, as they are less price sensitive.

The transformation of both sides of our balance sheet position us well for rising rates, unlike many traditional banks and thrifts. To further improve our position we apply hedges to our asset portfolio. For some time now we have anticipated a rise in interest rates, and in preparation we have reduced the duration gap between our assets and liabilities to just one month. As rates rise we will become a net receiver of funds on our hedging positions.

Moving forward, we believe that regardless of the interest rate environment, we will continue to generate a spread in excess of 200 basis points. In summary, our customer centric approach allows us to consistently set the standard for innovative products and services that meet the needs of our individual investors. We remain focused on leveraging technology and cost efficiency to create value for our customers and our shareholders, and to that end we will continue to examine our business and seek further integration opportunities that will enhance operational and financial efficiencies.

With that I'll turn the call over to Rob for the financial details.

Robert Simmons, Chief Financial Officer

Thanks, Jarrett. In the first quarter of 2004, total consolidated net revenues equaled $411 million, an increase of 7% over the prior quarter. Net brokerage revenues increased by 9% sequentially to $263 million, or 64% of total net revenue. Net banking revenue increased 5% sequentially to $148 million, or 36% of total net revenue.

GAAP earnings for the quarter more than tripled to 23 cents per share on net income of $88 million, compared to 6 cents a year ago on net income of $21 million. Income before other corporate items totaled $117 million, up from $95 million in the prior quarter.

Of the 23 cents in GAAP EPS that we earned in the quarter, 13 cents was attributable to the brokerage segment, with 7 cents from the bank segment. These segment results reported in our new natural account format include 1 cent of amortization of intangibles that was excluded from income from ongoing operations in our former pro forma reporting methodology. As we stated, our GAAP guidance for the year of 70 to 85 cents included the assumption that all of the nonoperating, non-ongoing items, such as amortization of intangibles, corporate interest expense and FAS 133 would be offset through the sale of each quarter of SBI shares. Total other income this quarter of $21 million when reduced by $8 million of amortization of intangibles resulted in a net $13 million gain or 2 cents, in excess of our guidance. This excess of $13 million below the line was intentionally generated through the sale of additional SBI shares, in order to allow a non-core asset to fund the incremental $13 million investment in marketing this quarter.

On a segment basis GAAP brokerage EPS for the quarter was 13 cents compared to 9 cents last quarter. Higher DARTs contributed 3 cents, and increased margin debt levels contributed another penny, while other operating expense savings offset 2 cents of incremental marketing costs.

The bank segment generated GAAP EPS of 7 cents, flat with last quarter. Spread widening contributed an additional 2 cents, offset by lower gain on sale of 2 cents. An additional half cent of earnings from retail mortgage were offset by higher cost allocations, of to 7 cent contribution from the bank, 6 cents came from core bank and 1 cent came from the retail mortgage business.

Although the EPS contribution from the bank segment was flat, on a quarter over quarter basis we continue to realize the desired shift in earnings mix toward recurring spread income.
quarter, we increased net interest spread to 185 basis points from 169 last quarter while exiting Q1 at 201 basis points. These results demonstrates the strength and stability of our model. We remain very focused on credit quality. Net charge offs for the quarter declined to 34 basis points on total average held for investment loans, down from 44 basis points last quarter. Our allowance for loan loss increased to 48 basis points as a percent of held for investment loans. In addition, total loan loss allowance as a percent of nonperforming loans, increased to 186%. Our bank remains well capitalized as defined by the Office of Thrift Supervision, with tier 1 and risk based capital ratios estimated at 6.21% and 11.69% respectively at the end of our first quarter.

We ended the first quarter with total cash and equivalents totaling $847 million, free cash totaled $705 million this quarter, a $55 million increase over the prior quarter after repurchasing $50 million of stock. Free cash, as we define it represents cash held at the parent, and excess regulatory capital at Bank and Brokerage. This is a metric used by management in measuring business performance.

Total expenses before corporate items equaled $294 million, a 2% sequential increase, primarily as a result of increased advertising and marketing expenses. Although expenses increased 2% quarter over quarter, total net revenues increased 7%, increasing our consolidated operating margin to 28%, up from 25% last quarter, and demonstrating once again the leverage in the model.

On a year-over-year basis net revenue increased 28%, while total expenses increased just 6%, driving a 157% increase in income before other corporate items.

As we've talked about in the past, our model benefits from multiple points of leverage. This fact became even more apparent in the first quarter with brokerage earnings increasing on higher DART and margin balances, and bank earnings remaining stable with a decline in gain-related income being offset by higher recurring spread income. We benefit from leverage points at both the brokerage and bank segments. At the brokerage, for every 10,000 incremental DARTs per year we earn an additional 6 cents. Similarly, for every $400 million increase in margin debt level we earn an additional 4 cents per year. In the bank the primary leverage points are around spread and capital deployment. A 10 basis point improvement in net interest spread will generate an additional 4 cents in EPS per year, up from our previous guidance of 15 basis points due to a larger projected balance sheet. Should we choose to downstream additional capital to the bank, $30 million of additional capital would add 1 cent per year in earnings per share.

When we announced our initial 2004 earnings per share guidance of 70 to 85 cents in December, we established a range of assumptions for each of the key drivers of the business. Based on our first quarter results and current trends that we are seeing, we are tracking at or above the high end of nearly all of those assumptions. So let me just go through a few of these with you.

Our original assumption for DARTs were on the low end 145,000 per day to a high of 160 per day. We ended the first quarter very near the high end of that range at 157,000. Average margin debt was a range of 1.4 billion to 1.8 billion. Our actual results for the quarter were 1.98 billion. Average commission per revenue trade was assumed to be between $11 and $11.26, and our actual average commission was $11.53. Direct mortgage originations were expected to be between 3.4 billion and 4.4 billion. For the quarter we did 1.1 billion or $4.4 billion on an annualized rate. Consumer loan originations were – assumed to be 3.7 billion to 4.8 billion in the quarter, which is one of our seasonally weakest quarters for this business we did 700 million in originations or $2.8 million annualized.

In interest rate spread the range was 175 basis points to 195 basis points, and we did 185 basis points for the quarter with a 201 basis point exit rate.

And finally, in terms of interest earnings assets, the range was 20 to 21 billion. And for the quarter we had average earning assets at the bank of about $20 billion. Given the strength of our first
quarter results and the trends we are seeing in our core drivers, we are increasing the guidance range by 5 cents on both the high and the low end of the range, so it's now 75 to 90 cents. We arrive at the 5-cent increase based on the following contributors. About 1 cent from higher margin debt, 2 cents from bank spread, 1 cent from mortgage, and 1 cent due to the projected size of the balance sheet of the bank. Most importantly, our ability to increase guidance is not dependent upon an expectation of DART volumes beyond our original assumptions for the year. We are extremely pleased with the performance of the model and the consistency with which it continues to deliver earnings growth, a stronger balance sheet, and increased financial stability.

With that we will now open this call to answer your questions.
QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, the floor is open for questions. If you do have a question at this time, please press star 1 on your Touch-tone phone. Questions will be taken in the order they are received. And we do ask that while posing your question you pick up your handset to provide optimum sound quality. Once again ladies and gentlemen, if you do have a question, please press star 1 on your Touch-tone phone. Our first question is coming from Colin Clark with Merrill Lynch. Your line is live.

<Q – Colin Clark>: Good morning.


<Q – Colin Clark>: Just a real quick point of clarification. The operating EPS for the quarter was 20 cents with 13 from brokerage, 7 from bank?

<A – Mitchell Caplan>: It was 21 if you back the amortization of intangibles out.

<Q – Colin Clark>: Okay. And then that would give you -- I guess the math on the brokerage and the bank on 21 cents is, like --.

<A – Mitchell Caplan>: It would be about -- in other words, because amortization of intangibles would be split 50/50, it would be -- you'd add about a half a penny to each of the two.

<Q – Colin Clark>: Got you. Okay. As you think about your -- that mix of earnings from the brokerage and the bank going forward in the next few quarters, it looks like it was around this quarter, around 35% of earnings from the bank, 65 from brokerage. How do you see that mix going forward in the next few quarters?

<A – Mitchell Caplan>: I think we'd expect to see brokerage continue to grow and you'd see it at 70 to 75% of total earnings.

<Q – Colin Clark>: Okay. So the brokerage still being the stronger driver.

<A – Mitchell Caplan>: Yeah.

<Q – Colin Clark>: The -- on the bank side your spreads improved to the end of the quarter to 201 basis points. How high -- how high can that spread go going forward? Where do you see that in the next few quarters?

<A – Mitchell Caplan>: You know, it's a great question, so let me take you through a little bit of what we're thinking. As we looked at guidance and some of the leverage points and, you know, what we had delivered so far in Q1 and where we saw the opportunities going through the rest of the year, it was pretty clear to us that again, I think Rob did an excellent job of laying out that at the high end of our guidance, I don't know if you remember when we really went through the guidance call, what we said is we hoped to achieve even for the high end 200 basis points at the end of Q2. Well, mostly as a result of the leverage between Bank and Brokerage in the Sweep Account, we got there at the end of Q1. So even if you were to simply run at 200 basis points for the rest of the year and flat, what you would really expect to see is a pickup of a penny. Now, our expectation is, is it rational to assume that we could get from 201 to 205 basis points and run there in Q3 and Q4? The answer is obviously we think that's eminently reasonable, and that will pick us up another penny as a result of the leverage point. So that, hence, is why we were talking about 2 cents. I believe and I think, you know, Arlen can comment on this, but we are expecting over the long-term to try to get to about a 220 to 225 to 250 basis point spread rate, and run there over a recurring period of time. We'll do it slowly. It will take time to build to that, but we believe that that's about the
long-term sustainable run rate with our business model in terms of the kinds of assets that we are willing to put on our balance sheet. You know we’ve been vigilant. We are really pleased to see obviously that our FICO scores have remained stable to increase. We’ve seen our reserves grow, and we’ve obviously seen our charge-offs decline, and so we will never ever deviate from that position with respect to credit. So as you look at that as a gating factor and you look at where we are going in terms of trying to integrate more and more of the brokerage and bank so that the bank’s balance sheet is funded on the liability side through brokerage customer relationships, I do believe that that's sort of the right level for recurring spread. Arlen.

Arlen Gelbard: Yeah, I mean – you are right, Mitch. I mean we really do have upside over time – it's something that we are building toward. You know, starting with the asset diversification and doing more along the lines of consumer finance businesses, you know, we expect ultimately to continue that diversification into assets such as credit cards that we've talked about before, commercial loans that we've talked about before. But again, you know, sticking within our conservative credit philosophy on the asset side. On the liability side, continuing our strategy, our long-term strategy that we talked about lowering our cost of funds, continuing to focus on the – on the sweep accounts, bringing more sweep accounts in over time, we expect that in the slightly rising interest rate environment the prepayments will remain steady as they are, which was something that had adversely affected our spreads in the past, and also as we continue in our asset diversification mode, when you combine that with our sweep deposits, we were able to lower our cost of hedging. So all those things together really bode toward a slow but rising increase in our spread, you know, as we would expect somewhere between 200 and 205 for the year, you know, and then moving on beyond that.

Colin Clark: Okay. And just one last follow-up. Where are you at in terms of the sweep? I mean how much more can you sweep over, and what would you view as the most ideal rate environment, I guess in terms of the shape of the yield curve and the kind of, you know, and just the rate movement? I mean I'm assuming a steeper yield curve and higher rates in the long end. And what would be an adverse environment for the bank?

Arlen Gelbard: You know, real quickly, we still have available – what's the balance available that's still to be swept, total available?

Arlen Gelbard: The total that is still in the money market account is 1.5 billion that we are looking at closely to moving, as well as another 1.5 billion that we are still looking at the availability of.

Arlen Gelbard: Right. So to answer your question, Colin, there is about 3 billion still available. What we've seen and I've seen, and Jarrett has been working on this is the expectation is in this quarter we'll move another somewhere between 400 and 800 million over and then we are continuing to evaluate. The nice thing is I'm sure you've seen it also grow organically in this past quarter. It was up a little over $100 million just as – on the core portfolio just as a result of organic growth. So it certainly has been a significant driver in terms of delivering value. And the nice thing is also on the brokerage side, we are seeing our money market balances grow. And so it gives us a bigger base from which to try to attack and move over in terms of creating value. So a couple things about the rising interest rate environment. I think as you know, if you've gone back historically and looked at E*Trade bank and then even before that looked at Telebank, we have often run a duration mismatch of around 6 to 9 months between assets and liabilities. You know, just like we have sat on this call and I feel like it's Groundhog Day, and for over a year we have been preparing for a decline in mortgage volume and mortgage profitability which did finally happen last quarter in Q4, and we worked our way through it quite successfully, we have also been preparing for the corresponding, obviously rise in interest rates, so we have continued to shorten the duration of that mismatch, and it's gone from what may have been 9 months years ago when I ran it, to 5 to 6 months a couple years ago as Arlen was taking over, down to as little as a month. And you've seen our hedging costs run anywhere from 100 to 170 basis points as a result of the purchasing of caps, floors, swaps and swaptions. And so we have been paying a significant insurance policy in order to
have that very low mismatch in duration. So as a result our expectation and our hope would be that we paid for it wisely, that interest rates will rise. You will see spread compression for that period of duration mismatch of maybe 30 days, and then you end up becoming a net receiver against all your counterparties, widening your spreads back out. So for us anything that would be up to – I mean we have bought protection all the way up to up 400, up 500. So we are in a significantly good place with respect to a rising rate environment as you look at duration mismatch. So I think that's one of the things. The other thing is obviously we have hinted at this, We are in a great position with respect to free cash. We are continuing to grow it. We feel quite good about the ability to grow that substantially this year. We are going to look at finishing out that first approved board approved 100 million share buy-back. Obviously to the extent that we think there is continued opportunity, we'll revisit that with our board, and simultaneously we are looking at ways in which we can reinvest in our businesses. Every time we downstream $30 million, it's another penny in earnings to the bank because you can grow the balance sheet. And to the extent that we get into a rising rate environment and you see the steepness of the yield curve and our ability to again fund with our brokerage customers' cash balances where the rates on that are a lag and are less price sensitive, so on an incremental basis you will have significantly higher than 200 basis point spread, we certainly would want to take advantage of that opportunity, obviously driving the ROE of the bank up and the ROE of the entire company up.

<Q – Colin Clark>: Okay. And just one last follow-up to that and this is it for me. The – if you can move over another – sweep over another $3 billion, does that move you closer to the 225 to 250, or is that more about kind of helping to support the current spread in the current environment?

<A>: No, it's the former. It would move it to the 220 to 250.

<Q – Colin Clark>: Okay.

<A>: It's incremental.

<Q – Colin Clark>: So that could move – you could move toward there sooner than later if you choose to sweep that over.

<A>: That is an opportunity, yes.

<Q – Colin Clark>: Okay. Thank you.

<A>: Absolutely.

Operator: Thank you. Our next question is from Rich Repetto from Sandler O'Neill. Your line is live.

<Q – Richard Repetto>: Yeah, hi guys. First question. On the gain on sale of investments, the SBI, you said that that was going to offset incremental marketing spend this year. So I'm just trying to figure out how much more of that you have to sell. You said at the analyst day I think 40 to 50 million in incremental marketing.

<A – Mitchell Caplan>: It's a great question, Rich. So, let me see if I can – I think Rob did a really excellent job of walking people through it. But to be as direct as possible, if you looked at our guidance when we gave it for the year of somewhere between 70 and 85 cents, I think we said we would sell enough SBI initially – we didn't talk about marketing at that point. We just said that we would sell enough SBI on an annual basis, and therefore one can presume on a quarterly basis, to offset what in our previous reporting was below the line, which was basically amortization of intangibles, corporate interest expense, and FAS 133. So by in large you would expect it to be in the range of about 3 cents a quarter. We obviously sold 5 cents this quarter, so it generated 2 cents more of gain than we would have originally modeled. That 2 cents is what drove us from the 21 cents in operating earning to 23 cents in GAAP, to be clear. In addition to which when we looked at
it there was a significant amount of liquidity in SBI this past quarter. We felt quite comfortable in selling that extra 2 cents, which was for us $13 million in gain, and as I looked at it and as Jarrett looked at it, I think both of us were of the view that if you look at something like SBI which we consider to be a non-core asset, and we can sell it and generate cash, which we can reinvest back into our business as a core asset, and we feel that we have more control over that in how we invest it and what the ultimate return will be, we feel pretty good about it. So as you can see, we grew accounts this quarter by, you know, up 37,000. It was 33,000 in brokerage, it's the first time we've been able to reverse the attrition trend, and probably more importantly, we didn't spend any amount of that significant increase in marketing until March. So it was the end of March when we really started spending the money. And if you look at what we've seen in growth in accounts as we've entered into April, we are up 70 or 80%, so we are really doing nicely in terms of really turning the tide here. And so I feel quite good about the investment in marketing in marketing in terms of what we are seeing, and I feel even better about taking it out of SBI. The last point you haven't asked yet but is probably the next question is, it is a little bit of the gift that keeps giving. We sold more – we continue to sell more of it, yet it continues to appreciate, and the current mark-to-market on it has a gain yet to be derived by us of $200 million. So certainly we have significantly more available to sell, even as you think about paying for the below the line expenses and what could be even the wildest growth in our marketing spend, in our SBI investment.

<Q – Richard Repetto>: And, Mitch, where is that showing up? So you are saying 200 million you could sell at today's prices.

<A – Mitchell Caplan>: You don't even see it. It's on our balance sheet as an asset and it's lower of cost or market. So it's held on our books at just at cost but the current mark-to-market of SBI is 200 million as of close of business yesterday.

<Q – Richard Repetto>: Got you. Okay, and then my next question is you did mention the account growth. First time in a while – if you look at the monthly data, you grew banking accounts in March nicely as well.

<A – Mitchell Caplan>: Yeah.

<Q – Richard Repetto>: So is some of that marketing now going to the bank or is it still the cross-sell from brokerage?

<A – Mitchell Caplan>: It is, but mostly in the marketing in bank we are going to be focused on the lending products. Because A, as you know, when you look at the value of a customer in lending it's got an incredibly high net present value. It generates a significant pop to our ROE. And we've done an extraordinary job, I – really, Arlen has done an extraordinary job of really with Jarrett driving this integration, of recognizing growth on the liability side of the balance sheet simply by sweeping from the brokerage assets into the bank.

<Q – Richard Repetto>: Okay. So when you do get a new lending account, that's opened up – if it's a brand new account, that's opened up a new account.

<A – Mitchell Caplan>: Absolutely. As long as we own that account and it's a core customer of ours. That's right.

<Q – Richard Repetto>: Okay. And very last question is on April trading, you know, NASDAQ bonds are down but we are hearing trading is actually up a little bit, at least from a peer.

<A – Mitchell Caplan>: Okay, so, Rich, I knew you were going to do this. Okay? At analyst day when we did the analyst day I said we were not going to give monthly numbers until the month came out. Right? And so – and that the only way I would do it is if it was going to move our guidance. Since we have just obviously upped our guidance, what I will tell you without giving you
specifics is that what we saw in April gave us the comfort to raise guidance, and you can assume that our total DARTs are at the high end of our range.

<Q – Richard Repetto>: Great. That helps.

<A – Mitchell Caplan>: Okay?

<Q – Richard Repetto>: Thanks, guys.

Operator: Thank you. Our next question is coming from Charlotte Chamberlain from Jefferies & Company. Your line is live.

<Q – Charlotte Chamberlain>: Good morning, congratulations on a fine fine quarter.

<A – Mitchell Caplan>: Good morning, thanks, Charlotte.

<Q – Charlotte Chamberlain>: One thing I haven't heard you give a lot of detail about and I was wondering if you could, is what was happening at Dempsey, and your other market maker. Their – as I read it, their principal trading revenues were up 7%, and I was wondering if you could give us some color on that, specifically whether it's coming from bulletin board, NASDAQ, options, just some general color there.

<A – Mitchell Caplan>: Yes.

<Q – Charlotte Chamberlain>: The other issue is about the bank. And while the number of accounts is up, the deposits are down. And they've been down for three straight quarters. And so presumably you are losing in terms of actual deposits more than what you are moving over in sweeps. And I was wondering could you tell us about that residual – more than residual, that and what your strategy is there. And if you continued to lose that, presumably you are making it up with home loan bank advances. And finally I would assume that even though your March numbers for mortgage originsations are magnificent, it's 500 million, presumably April and May should be pretty good because of the downtick in rates. So I assume that – is it reasonable to assume that the mortgage company will contribute at least as much as this quarter, and possibly more for next quarter? Thanks.

<A – Mitchell Caplan>: Yeah. So let me attack it. I'll do the last one first, and sort of work backwards. Pipeline, I don't know if we mentioned this, we are closing the quarter with a pipeline of 900 million, so locked and in. As you remember, last quarter at the end of Q4 it was like 300 and some million, so it's up significantly to your exact – to your point. You know, we did see that period where interest rates gapped down, and as a result a lot of people rushed to take advantage of that opportunity. Also, even currently as interest rates are rising, I think people are recognizing that this is probably it. And so you are not only seeing that last movement as a result of the gap down in interest rates, you are also seeing some volume coming through now quite nicely as a result of the rise in rates and people saying this is it, I have to lock ourselves in. So to your point, absolutely. One of the things in taking guidance up 5 cents was that we assume the mortgage company would deliver a penny more. I think if you remember, when we gave guidance for this year we said the mortgage company would make a half a penny a quarter or 2 cents for the year, we're now assuming it will make 3 cents. It already made 1 cent in Q1. We are obviously assuming that Q2 will be a nice quarter because of the locked pipeline, and then we would expect to see it drop off dramatically in Q3 and Q4. Are we still comfortable with it delivering a half a penny in Q3 and Q4 as it transitions to purchase money down from a high of making 5 cents in the quarter? Absolutely. But we've actually given ourselves some cushion for it to make even less than a half a penny in Q3 and Q4 and still now hit the revised upward guidance. So hopefully that answers your questions about what we are seeing there. On the bank side with funding, you are absolutely right. It is one simple answer. We are bleeding off high rate CDs. So like it or not, for a long time when I ran the bank and
Arlen inherited it and changed it around and is doing an extraordinary job, we were funded with way too many large balance, very high rate certificates of deposit. And we are now effectively bleeding off by dropping the cost of those CDs dramatically. So when – if you look at our price of CDs, it may have been as high in terms of pricing as 100 over the swap curve a couple years ago, and now we are pricing those CDs at the swap curve flat, up 10, down 10, and so obviously we recognize that when someone who is a CD customer comes to renew, that's the new rate. They are likely to leave. We are very comfortable with that. We don't see them as our core customer. We don't see them as an Internet customer. They don't log on. We can't cross-sell them, but we are going to be losing larger balance CDs until we bleed off all of the high rate CDs. Net/net it's fine with us. It's core to our strategy. As long as we continue to grow sweep even though it has a lower average asset balance than a core CD than what was a high rate CD, that's fine. It's part of the strategy. You will see it end in another quarter or two because we will have flushed through the last CD accounts and we will be focused entirely on growing that core transactional account and keeping that mainstream base. To your point, you are absolutely right. We used SHLB advances and we also used reverse repurchase agreements, and we keep ourselves in a position of having somewhere in the neighborhood of $3 to $4 billion of excess borrowing capacity on an overnight draw-down ability, so I feel quite good about that. Finally with respect to Dempsey, I'll give you the quick, and then I'll turn it over to Lou if he has any more color that he wants to add. We did see our rate – we saw obviously the number of shares up dramatically. We also saw bullies up as a percentage, still way below the high, so I think that it was up from us if I'm correct, from 82% to 86%, sort of in that range, last quarter to this quarter. But when you – you know better than anybody when we were at a high, we were in the high 98% a couple years ago when it was a real driver and sort of the speculative area, but we are definitely – we saw growth of bullies, and so obviously in terms of the commission it's down because of the percentage of bullies driving that shift mix. So that's really what we are seeing. But net/net you are right. Growing top line revenue and feeling actually quite good about it, with being pretty consistent at about the 50, 55% internalization rate for our customers. Lou, any -?

<A – Lou Klobuchar Jr.>: No, I think Mitch, you hit the key points. Dempsey did have one of its best quarters in the last several years. Clearly when the market moves in a positive direction from DARTs, the market making community generally moves in the same positive direction. This does speak to the issue of our model and the benefits of being vertically integrated and bringing that incremental value to the bottom line.

And in terms of the trends within it, you are absolutely right. You see a big spike up in the volumes, and that was primarily due to a spike in bulletin board volumes, although we also saw a very nice increase in listed trading volumes. The decline in revenue capture per share there, again is primarily a function of the shift in mix between listed and over the counter versus bulletin boards.

<Q – Charlotte Chamberlain>: Okay. Great. Thanks so much.


Operator: Thank you. Our next question comes from Matt Snowling from Friedman, Billings, Ramsey. Your line is live.

<Q – Matt Snowling>: Good morning guys.


<Q – Matt Snowling>: Getting back to the bank funding question I think Charlotte had, if I look at the transaction accounts, that actually dropped. And considering that the customer accounts have increased, that seems a little contrary to what you'd believe or expect.
<A – Mitchell Caplan>: Yeah. And the decline in the transaction account came only again in those that we define as high rate money market.

<Q – Matt Snowling>: Oh, okay. Right. And in regards to the Sweep Account, the 3 billion of potential that you are looking to sweep over, should we think of the roughly $3.2 billion of CD funding as the real opportunity to sweep one for another?

<A – Mitchell Caplan>: I think that's a great way to look at it.

<Q – Matt Snowling>: Okay. One other quick question. In terms of customer in-flows into the brokerage, it was 2.9 billion. Where is that really going to? Are those retirement accounts this quarter or is it just general brokerage accounts?

<A – Mitchell Caplan>: General brokerage. But you raise a great point which is what we are now seeing, so we are actually quite pleased with the trend that we've seen in the first two weeks of April. As I had said earlier on the call, most of our marketing spend for a variety of reasons lagged the quarter and got spent in March. And so we are now seeing, you know, the benefit of it in the latter part of March. And certainly as we've entered April. And again, because a lot of that was around the asset gathering products around sort of the serious investor campaign that Jarrett and the team built, you are seeing significant growth. And I guess maybe it's a little too early to call this a trend, but certainly for the first two weeks of April. I mean again, we are up probably 70, 80% off of the March run rate in accounts and off of a year ago, same time. And a lot of that is being driven by the IRA accounts because of the kind of season that you are in. But when you look back to last quarter it was driven in core brokerage.

<Q – Matt Snowling>: Right. Thanks.


Operator: Thank you. Our next question is coming from Richard Herr from KBW. Your line is live.

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


<Q – Richard Herr>: Great quarter.

<A – Mitchell Caplan>: Thanks.

<Q – Richard Herr>: Just a few quick questions on the bank. The total loan loss allowance, the total NPLs, that increased slightly again this quarter despite another great improvement in credit quality. Can you kind of walk us through what you are seeing in the credit quality? And then I know you are being conservative. Are you getting more conservative?

<A – Mitchell Caplan>: I think we are just being very prudent. I think that's right.

<Q – Richard Herr>: So can we continue to assume that – I mean should we continue to see credit quality continue to improve or -?

<A – Mitchell Caplan>: We would certainly hope to see it improve. That's right. So if you look at the growth in our assets and when we added our consumer finance assets, as you know, it's sort of a continuum. We've already passed the peak and we are now coming down on the other side. As we add additional consumer finance assets to our balance sheet each quarter, we will talk about it, we will talk about what the average FICO scores are, we will talk about where we are in the life
cycle and we'll give you guidance. But as you saw last quarter, we added a bit from our HELOC. I think we added, what was it Arlen, 100 and - ?

<A – Arlen Gelbard>: 100 million.

<A – Mitchell Caplan>: $100 million in total assets was added in consumer finance with HELOC. Average FICO score was around 725. And we would expect it not to have it – see it have any real material impact in terms of our loss curve. So yeah, we would expect to see things obviously stay flat or improve.

<Q – Richard Herr>: Thank you. That's helpful. Also, I'm sorry if this has already been answered, but the average commission per revenue trade is getting much stronger. Is that because of a greater mix of options trading?

<A – Mitchell Caplan>: It is a result of three dynamics. The first dynamic, you are absolutely right, greater mix of options. So as you know, Jarrett and the team again built a phenomenal options product. It got launched early in this past quarter, and we saw it immediately a pick up in volume in options. Obviously the higher price point, very helpful to bring our commission up. Second thing is you saw movement in DARTs. Obviously there was an awful lot of volatility. So January was incredibly, incredibly strong numbers for DART. You saw a resurgence there, not only from the active trader but also in Main Street. In February and March is you saw still strength, but it fall off from the January numbers, again you see a little bit of a pullback in Main street and more on a percentage basis coming from the active trader. And also now with our new offering, the serious investor. So the mix shift though to a little bit more Main Street quarter over quarter, also drives up the average commission. And the final is you've seen the – we've had unbelievable strength in terms of international. And although it is still small numbers, when you look at it a year ago, it was de minimis. Now it's getting to the point where it's 10, 12% of the whole. And when you blend in a higher average commission as a result of international DART, those three things working together, we were quite pleased to see drove an increase in our average commission. You'll notice that as we gave guidance, we didn't really take into consideration either commission or DART. So as we looked at the 5 cents of upward guidance we sort of looked at what we saw happening in our banking business and where we were, and how good we felt about this consistency of the spread on our margin, and also the stability of our margin accounts. To the extent that commissions stay at the rate, there is upside opportunity. To the extent that they decline as a result of serious investor pricing becoming a more meaningful part of the whole, you know, we left ourselves some room there. And the same is true in terms of how the quarter and ultimately the year plays out in DARTs. If you heard me tell Rich, you know, so far so good in April, but again, as I said the beginning of the year, it's only two weeks, and two weeks does not a quarter make, or the rest of the year make. So again as we see more firm numbers with respect to both commission and with respect to DARTs, we'll come back and revisit guidance again, if we need to.

<Q – Richard Herr>: Thank you. That's helpful. And just to confirm, the upper end of guidance for DARTs is still 160, thereabouts?

<A – Mitchell Caplan>: That is direct.

<Q – Richard Herr>: Thank you very much. Great quarter, guys.

<A – Mitchell Caplan>: Thanks so much.

Operator: Thank you. Our next question is coming from Bruce Wilcox with Cumberland and Associates. Your line is alive.

<Q – Bruce Wilcox>: Good morning.
<A – Mitchell Caplan>: Good morning, Bruce.

<Q – Bruce Wilcox>: I want to talk a little bit about the longer term, Mitch. It seems that you all have been very successful now in sort of embedding what I would refer to as a very strong, you know, return on invested capital and return on incremental invested capital. So if I think about brokerage, I think about the bank and then I think about share repurchase, in my mind those are sort of the three main areas of tradeoff for use of the incremental investment dollar. You've already said that, you know, beyond the 100 million authorization which has been half used, I guess you are saying it's reasonable to expect that the Board would, you know, look favorably upon reauthorization.

<A – Mitchell Caplan>: I think that's right.

<Q – Bruce Wilcox>: And so, you know, I guess the question really is do you foresee any saturation of your business opportunity in the main – in the two main, you know, operating units? And, you know, against what – I mean there are some of us in the audience who think that the – you can appraise the company as substantially higher value than it sells for. So, you know, do you see any saturation potential in brokerage or banking? And is it – is the kind of trade off on the apparent return on a share purchase an explicit part of the thinking as you, you know, decide what to do with capital?

<A – Mitchell Caplan>: Yes, a great question. Frankly, Bruce, that's my job now, right. So I would tell you that you've hit the nail on the head, and I'll tell you that the opportunities and the challenges. The good news is that for right now as you've seen, free cash is growing dramatically, and as I look at the rest of this year I see an opportunity for a significant number there. I see no dearth in terms of opportunities, so I think we as a management team feel very much like you do, that our stock is significantly undervalued, and we would believe that it is a tremendous opportunity to buy it at this point and create long-term value. We did it obviously a year ago when our stock was at 4 or 5 and it's generated a nice return for both our employees as well as the rest of our shareholders. And we again see the opportunity looking forward over the next few years and say we are again quite comfortable with where we are in the business model, and supporting the stock here as a buyback, because we think it's a great investment for our shareholders. So I look at that and I look at the net present value of the long-term return on that, and then I weigh it as exactly as you said, against what the opportunities in terms of investing in our core business is. Again, there is no dearth of opportunities with respect to our core business. I think Jarrett has done an extraordinary job of building an infrastructure that really is for the first time becoming an integrated offering to our customers where you really have a very clear set of value propositions that combine investing and lending and retail deposits or banking. And the opportunity is more, believe it or not, to down stream capital of the Banks. Because the most significant capital driver in the business as a whole is either our marketing dollars. And right now as disciplined as we've been and the opportunities I see, and I look at $200 million in terms of a mark-to-market on SBI, I have more available there than I could possibly ever want to use with respect to trying to drive value and growth in our business in terms of awareness and execution and growth in accounts and growth in revenue. So I look at that on one side. As I look at investing in the brokerage business, generally speaking you are funding your margin debit book. And spreads on our margin are so unbelievably profitable that it almost becomes a self-funding opportunity for us. So as I look at our brokerage growth, it really is very self-funding. What you would see is ROEs in the brokerage now, last quarter are in the mid 40's. They are really doing quite, quite well. ROEs in the bank is 15, 16%, again good, not good enough. It needs to get to 20. Getting to 20 really needed to get to a recurring sustainable 200 basis point run rate. Arlen has done it. He's driven an incredible transformation in the core business, and more importantly he's made that recurring revenue that we are depending upon, coming more from spread and less from gain or anything else. So again, I'm pretty confident of its recurring nature, so it puts us in a place where I see moving incrementally to a 20%. It would drive obviously, if you look at, you know, 70/30, or 75/25 in terms of the mix, it would drive our overall ROE significantly in excess of 30% for the company, and I look at that as compared to what
do I believe is going to be the ROE on buying back our stock, and that's how we make our decisions. For the time being, you know, it was a pretty clear decision that we were going to buy back our stock. We are not in a place where we saw the need to invest in brokerage, and we weren't at 200 basis points in spread. Now that we are there we will balance the two and try to invest in ways in which we drive the longest and greatest shareholder value.

<Q – Bruce Wilcox>: So just as a – that's almost as good as Henry the fifth’s Agincourt speech as far as I'm concerned. Looking at some of the operating metrics, I'm intrigued to see the progression in the revenue per compensation benefit dollar, which has been, you know, awesome, and revenue per head count, and - ?

<A – Mitchell Caplan>: All Jarrett.

<Q – Bruce Wilcox>: Well, congratulations Jarrett. But, I mean, that strikes me as, you know, a business manager myself, as something that's a very concrete, you know, indicator of operating leverage. And would you continue – I mean, A, do you agree with that, and, B, do you expect to see continued progression of some sort in those metrics?

<A – Mitchell Caplan>: Yeah, and let me answer it, because if he does he'll scare the hell out of people. I would tell you I'm really pleased by what we are seeing and I would hope to see it stay flat. Jarrett would tell you he would hope to see it improve.

<Q – Bruce Wilcox>: Okay. Fair enough. Jarrett, you want to comment on that.

<A – Mitchell Caplan>: Yeah, go ahead, do it.

<A – Jarrett Lilien>: I'm saying that – how is Mitch going to position it? Yeah, I think there is a lot more to go, and it's all consistent with the strategy that we’ve got, as we continue to integrate everything. It's about integrating our product offering, it becomes a stronger offering to our customer. But in order to do that we’ve got to continue to integrate behind the scenes. And with that integration comes increased efficiency, not only within the operation but also within the balance sheet as you’ve seen with sweep. So we are really just at the beginning of all of that, and we've got momentum. And so I do expect to see more.

<Q – Bruce Wilcox>: Okay. Thank you all very much.


<A>: Thanks, Bruce.

Operator: Thank you. Our next question is coming as a follow-up from Colin Clark with Merrill Lynch. Your line is live.

<Q – Colin Clark>: Hello again. Just a – sorry to ask the same question again, but I just want to get back again to the operating EPS this quarter just to make sure I'm clear on that. Now, if you – if you strip out the 28 million in gain on investments, that's 4 cents, and that gets you to 19, and --.

<A – Mitchell Caplan>: The way to look at it, Colin.

<Q – Colin Clark>: Okay.

<A – Mitchell Caplan>: Is as simple as this. The way we used to report before we moved over to natural accounts was amortization of intangible was an expense below the line. It is now moved above the line, and it hits both the P&Ls of the segmented Bank and Brokerage. So there is an $8 million or a little over a penny charge for amortization of intangibles. So if you took that the way we
used to report and moved it below the line, each of Bank and Brokerage would have done a half a penny better in their core earnings. So instead of it being 13 and 7 it would have been 13.5 and 7.5.

<Q – Colin Clark>: Right. And so --.

<A – Mitchell Caplan>: We'll be happy to walk you offline through every single line item, but it's the pluses and the minuses, as we are moving from the way we used to report in terms of operating to GAAP.

<Q – Colin Clark>: Okay, but the apples to apples, just in terms of the way you previously did it, your apples to apples EPS would have been --.

<A – Mitchell Caplan>: 13.5 and 7.5, for 21.

<Q – Colin Clark>: 21.

<A – Mitchell Caplan>: Correct.


Operator: Thank you. And our final question is coming from Robert O'Neil with Fidelity Management Research. Your line is live.

<Q – Robert O'Neil>: Hi. This is Bob O'Neil from FMR. A quick question on the trading activity that you guys have seen, the increases you've seen, what percentage of your accounts right now are actually -- are trading?

<A – Mitchell Caplan>: Yeah, Rob. It's not something we break out.

<Q – Robert O'Neil>: It's not something you break out?

<A – Mitchell Caplan>: Yeah.

<Q – Robert O'Neil>: Can you give me a rough estimate of like how far above you are from a break-even standpoint on a trade per day?

<A – Mitchell Caplan>: Yeah, absolutely. Break-even now is – it's about 45,000, so it's right in the range of 45,000 DARTs a day, and you saw that we were somewhere in the neighborhood of 157,000 DARTs for the quarter.


<A>: The only thing I'd add to that, Mitch, is clearly in Q1 we saw a continuing reengagement of the mainstream customer. That's where the bulk of our customers are. So directionally you can make an assumption that we've seen a pretty significant increase in the number of customers that are engaged in trading in the market, even though we don't break out those specific numbers.

<Q – Robert O'Neil>: So the retail – the retail investor is coming back from your customer base, basically.

<A>: Oh, absolutely.

Operator: Thank you. At this time I’d like to turn the floor back over to Mitchell for any further comments.

<A – Mitchell Caplan>: Thanks very much for everybody for joining and we’ll see you next quarter.

Operator: Thank you, ladies and gentlemen. This does conclude today’s teleconference. You may disconnect your lines at this time. Have a wonderful day.